VESTED INTERESTS
OR COMMON POOL?

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by

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"The Government has accepted the criterion that vested interests cannot be allowed to stand in the way of the war effort."—CLEMENT ATTLEE to the Labour Party Conference, May 25th, 1942.

I AM grateful to the editor of the *New Statesman and Nation* for his permission to draw from articles I have contributed to that weekly forum of free speech.

I am grateful to the editor of the *Economist* for his consent to the reproduction in my Appendix I of the names of the "Controllers" which his outspoken paper has twice printed.

I am grateful to my business partners for their Christian forbearance of my provocative pen.

AND DEDICATION

To all democrats who hate political humbug and commercial privilege, who love free thinking and speaking, I dedicate this war-time essay in constructive, sociological criticism.

NICHOLAS DAVENPORT.

May 1942.

CONTENTS

PART V

THE WAR PLAN

PART VI

RECONSTRUCTION

APOLOGIA

"Socialist, individualist, it is time we washed these labels off our intellectual baggage. They are no longer of use to us and they may easily send our wills and intentions astray."—William Clissold in "The World of William Clissold" by H G. Wells

"Looks frightfully historic," said the reporter from the *Daily* ——, a roguish, tough little girl, who was walking with me round the grounds of my Blankshire house.

We had come to the bridge which spans the moat and had reached the motte of the Norman earthwork.

"These earth defences", I replied, "were thrown up in 1135, when King Stephen was having some trouble with Matilda, the Queen Mother. In fact, there was civil war. Stephen's headquarters were at O—— and Matilda's at F——, and this half-way house was in no man's land. So the Norman owner—an absentee landlord, I might add —built the moat and the motte to protect his property, his servants and his cattle. And, curiously enough, here is *our* protection—twentieth-century style—if we are caught in a daylight air-raid on neighbouring aerodromes." And I led the way into a dug-out which the gardener had built inside the old Norman motte.

"Times have changed," said the girl.

"Have they?" I asked. "Do you think that life is any more secure and noble than it was under King Stephen?"

"Well," she laughed, "we have aeroplanes instead of arrows, tanks instead of cavalry——"

"Admit it!" I said. "Our inventions long ago ran ahead of our morals."

"Still," she replied, "give me the twentieth century."

Which shows that there is no accounting for young women.

"Now," I said, "if we return to the house I will try to answer your personal questions, if you insist."

In the hall, on the way to the library, the girl's eye was caught by a portrait of the early English School.

"Who's that?" she said. "A King of England?"

"Yes, the founder of a famous line."

"Funny. It looks like Sir Horace Wilson."

"No, it's not King Ethelred the Unready."

the presence of the men who knew, that no one really knew anything! You might learn something from the last man from the last committee, or the last man out of the Minister's room—if you were lucky enough to meet him. But next day it would be out-of-date again, or buried beneath the papers of the next inevitable committee."

"So it was committee after committee?" she asked.

"The curse of Whitehall", I added, "is undoubtedly the committee system. But it is a useful system, of course, if you want to avoid the effort of individual thought or lack the courage for individual action."

"And it leads", she said, "to a lot of lobbying and intrigue, so I am told."

"If you really want to understand a Government department at work", I said, "you must think of a vast subterranean corridor with stalactites hanging from the roof and stalagmites creeping up from the bottom. The stalactites are the temporary Civil Servants taken in from outside. They never cease dripping minutes, which for them are a new sort of game. The stalagmites are the permanent Civil Servants on whom the minutes drop, and the effect of this dropping is that they grow higher and higher in importance, until the biggest stalagmites are so aloof that you can never reach them. Not unless", I added, "you have the patience to wait upon their attendant and adoring secretaries.

"I might add", I went on, "that many of the temporary Civil Servants who do not acquire the habits of the Whitehall institutions go slowly mad and are removed to other institutions out in the country. But the wastage is not so high as it might be. As I was crossing one day the dangerous highway of Millbank, I remarked to a senior official—happily blessed with a sense of humour—that the lives of many Civil Servants must be lost in the course of the year's traffic. 'Not nearly enough,' he wisely remarked."

"And what did you think", she asked, "of the Public Relations job?"

"These so-called guardians of the public morale number twenty-eight—according to a statement in the House of Commons—and their combined salaries amount to about £32,000 a year. The all-in charge of their departments must cost the tax-payer at least £65,000 a year. Press Officers or Press 'contact men' are a necessary part of our democratic machinery; but Public Relations Officers!

What, pray, do they know of the public morale in a people's war? Some, it is true, have an intimate knowledge of the morale of the vested interests. One, for example, was Public Relations Officer of the Steel Trust. Another was the private publicity agent in pre-war life of his present Minister. Most of them are keen to puff the merits of their own department over the merits of all other departments. But I doubt whether any one of these Public Relations Officers conceives it to be his duty to keep a democratic public continually and adequately informed, through the Press or the wireless, of what his department is doing and why it is doing it. A few of them, I know, have had instructions from their masters to keep their Department and their Minister out of the Press at all costs. Don't you think that it is an alarming and revolting thought that twenty-eight so-called Public Relations Officers should have been let loose upon the unsuspecting nation—at a cost to taxpayers of £65,000 a year—just to poison or to colour the springs of the public information?"

"I know some editors", she admitted, "who would heartily agree with you. Tell me, do you call yourself a socialist or a capitalist?"

"This is no time", I said, "to choose political labels or talk party politics. The war presses on us grimly, and the country is sick to death of party politicians. Of course, I am on the 'left', but as the party creeds of socialism and capitalism are professed at Westminster I hate them both. The first seems to stand for hypocrisy, the second for cynicism—both equally repellent. Actually I wear none of the old political school ties. For a time I did give some advice to the Parliamentary Labour Party on City finance, and wrote a memorandum on the National Investment Board which found its way into a Labour Party's Policy Memorandum. But when I tried out not long ago an article in the *New Statesman and Nation* on the lines of this book, I was accused by some Tories of being a communist with a Russian beard, by some socialists of wearing Fascist black and by some imbeciles of being a reactionary. But I happen to be nothing but a harmless, independent democrat, armed only with a pen and an economic plan, which I hope some new party will adopt."

"Why bring up a plan," she asked, "which sounds like economic revolution, in the middle of a war?"

"Because we have to organise victory, and in doing so we

are bound to organise a new economic system—a new socialism or a new capitalism. That is inevitable. The pity of it is that neither of the two great political parties has any idea of what sort of system it is organising. They have no straightforward plan to offer. Both are dominated by their vested interests, which are holding on to what they can of their past and jockeying for position in the future. But revolutionary ideas about the national economy are now stirring. There are capitalists as well as workers who are tired of the existing disorder, resentful of economic misgovernment and muddle, dissatisfied with an unintelligent money system and disposed to try out a new order of things. Even Sam Courtauld has lately confessed to being hungry for economic change. And the workers, listening to fiery shop stewards, are not disposed to wait too long for a plan of action. The patriotic, uplift speeches which the Government leaders pour out at week-ends leave them unmoved. They are not prone to be bull-dozed by politicians. They want the promise of a better world, here and now. If they are to work like hell and live dangerously for the next few years, they will want something definite to look forward to. They will have to be assured that we are fighting this war not only to smash Nazism, but to guarantee the economic as well as the political rights of man—the right to work, the right to a decent standard of living, the right to economic independence. Believe me," I went on, "if we are to sustain industrial morale in these bloody and perhaps prolonged years of war, the workers need to have a clear vision of the new Britain—*their* Britain—they are fighting for. It is not enough just to have Winston Churchill."

"Go on, brother," said the girl; "I can see you are getting worked up."

"That is my reply to the timid troglodytes of Whitehall who would suppress any radical thought today on the pretext that it weakens our war-time concentration. When I contemplate the appalling prospect of our economic post-war world, I suspect that the revolutionaries of today will find themselves the conservatives of tomorrow."

"So you think that we shall never get the maximum effort from the nation unless it is fired with a plan for tomorrow as well as for today?"

"I do. But where shall the nation turn for it? Certainly not to the Conservative Party. Tories want no revolu-

tionary change. Indeed, they want less Government interference with property and profit-making—a freer capitalism. They would like to see the capitalist system improved—they agree to have it controlled or restricted to some extent during the war—but they want no tampering with the privileges and power of money and of the ruling classes. It was a terrible mistake for our Prime Minister to allow himself to be elected chairman of a feudal Party. The Trade Union leaders, too, want no revolution. They merely desire the succession to the privileges and power of rule. They seek no new order of things. They want the prizes of the old. They are fearful of any revolutionary change which would deprive them of their jobs. They are, therefore, content to be the new Liberals, the new radical reformers of our time. They may terrify conservative old ladies, but they will not spoil the political fun. They are waiting for the succession to political power with a Trade Unionist in the Prime Minister's seat and all their hosts of officials stepping up into the places of authority and privilege now occupied by the rich and propertied today."

"So you would like", said the girl, "to see a new political party?"

"Yes, if it is Parliamentary, not Fascist. There is need for a new party, and I would join any which stood for the nation first and party politics second. But I tell you that I am no politician. This is not a political book. It is a book which deals only with the economic, sociological questions—How is our war production run? Who really controls it? Are we building up the right system for winning the war? My conclusion is that we are only building up trouble, that we are creating fresh wrongs and new muddles. At any rate, I have the courage—or audacity—to suggest how it should be changed. I am convinced from inside, practical knowledge of the system that it is the vested interests of employers and Trade Unions which are holding up the rationalisation of our war economy, and, withal, lowering the national morale."

"But you have your eye", she said, "on the future position?"

"If my war production plan", I replied, "can be readily adapted to meet the revolutionary period after the war, when economic chaos will bring vast social upheavals, it is all the better for that, but it does not make it a political plan or me a politician."

'Well," she said, "it is refreshing to get a programme of change from a business man instead of from a theoretical socialist."

"I hope I know", I said, "from a business point of view what works and what won't. Perhaps I may be forgiven if I think I understand the capitalist system better than the highbrow exponents of Marxism, who write about it so learnedly and viciously. I don't believe that they have ever really understood what is wrong with it, or that they have anything more practicable to put in its place. I cannot find any new idea that they have given to the world since Karl Marx or Henry George. I do not believe that they have even made up their minds whether, if they had the power, they would introduce their master's Communism or adopt the Trade Union plan of driving a reformed capitalist horse in harness with an overgrown Socialist mule. Where does our Fabian brain trust stand today? If our intellectuals of the Left are not prepared to come down from their cloud and preach unashamedly their doctrine of Communism, or try to work out a practicable alternative, they should really hold their peace."

"But they won't do that," she said; "you can take that from me."

"That is why I am emboldened to put forward my own plan, in the pious hope that it may point the way not only to a rationalisation of our war economy but to a radical change in system after the war."

"Can't you give a name to your plan?"

"Well, if you want a name, I will call it the 'Common Pool' or 'Common Wealth' plan."

"Commonwealth", she said thoughtfully, getting up from her fireside chair, "is not a bad name for a new Parliamentary party."

"Then tell it to someone in politics who has no party—like Sir Stafford Cripps. I warned you", I said, showing her the door, "that, although I am a democrat, I am not a politician and will not be embroiled in politics."

PART I

THE NATIONAL MORALE

CHAPTER ONE

MORALE AND PROPAGANDA

"Social change is essential for morale . . . essential as part of the strategy of victory."—PROFESSOR LASKI in the *Daily Herald*, March 1942.

"It is surely important that every attempt should be made to avoid disturbing the confidence the worker has in the equity of the economic system."—SIR WALTER CITRINE, reported in the *News Chronicle*, Sept. 1941.

"The Conservative Party . . . is the main part of the rock upon which the salvation of Britain has been founded."—Prime Minister, WINSTON CHURCHILL, on March 26th, 1942 in a speech to the Central Council of the Conservative Party.

"DESERVE VICTORY" is the slogan shouted to the passing crowd in Trafalgar Square. It spans a poster blazoning the beatified face of our Prime Minister. A "morale" poster, I presume, but shall we deserve victory the more by gazing upon a childish falsification of Winston Churchill's age and countenance? Most people, I think, like to picture him as a very stubborn old man, unhappily addicted to cigars, looking every inch the conventional, unbeatable John Bull, bowed at the shoulder under the load of his terrible responsibilities, but undaunted and unyielding, full of grit and determination, breathing defiance of our mortal enemies and embodying the great British tradition of "win in the end" or "muddle through". But to deserve victory we have to look not upon Winston Churchill's bulldog countenance, but rather solemnly into our souls.

"Deserve Victory" is a moral question.

I know that some people who pay devout attention to biblical prophecies, if to nothing else, are convinced that God will save us by some miraculous intervention, or that some new diabolic machine, like a death-ray, will be invented one day to give us victory. Our Prime Minister once expressed gratitude to Hitler for sending us the best brains of Jewry to help our scientists—notably Lord

Cherwell—beat the German experts in the race for deadlier and deadlier contrivances of war. I only hope that some of these aliens will escape from our internment camps in time to perfect the wonderful invention which will deal out death to the barbarian hordes of Germany and Japan. But my religious instinct warns me that God is more likely to help those who deserve well and help themselves. That is why we need to look into our souls.

We use material weapons, but this is a war of the spirit. We are fighting to prevent an evil way of life from getting control of ourselves, of our nation and of the world. But where are the leaders who will express our spiritual faith and fire us with the enthusiasm of a religious crusade? They are not to be found hobnobbing with the Party Whips, or encountered with the brandy and cigars after dinner.

The Rift in the Lute

It is understandable that the people should have turned hopefully and longingly to Sir Stafford Cripps on his return from Russia, for in him they saw at last a man without party, a man of austerity, a man of high ideals. Whether he had a plan they did not know, but lofty sentiments and a fine "wireless" voice guaranteed his place in the popular mythology. Besides, Cripps, fresh from his experiences in Russia, saw the war as a people's war. But most politicians see it as just another war of power politics, made more savage and ruthless by the fact that the power politicians in Germany and Japan have never played cricket or enjoyed an education at English public schools. Our Prime Minister, being historically as well as politically minded, sees it, no doubt, as the historic continuation of the continental wars of his ancestor, the great Duke of Marlborough. But if we are just common people, without lineage or social background, our hearts do not beat like that of a Churchill on the field of continental battle. We know, quite simply, that if Hitler is not destroyed he will destroy us, and that the supremacy of the German Beast would mean the degradation of the human race. This gives us, in all conscience, a high enough purpose for our battle. We know that we are fighting in a people's war, in a cause as uplifting as the divine rights of the individual man. But we have an uncomfortable feeling that our rulers see it otherwise—as a

political, historical and nationalistic war—and that when they have won it they will want to restore the world for the vested interests in power. Did not our Prime Minister tell the Conservative Party, when he accepted its leadership, that he was fighting the war as "traditional England"? Why, traditional England has already lost an Empire, and it will be a new Britain which will win the war.

Faced with the ordeal of battle against the powers of darkness, the nation is, in fact, ready for a spiritual purge. When the German Beast began to mesmerise Europe by the terror of his material power, he was clever enough to mix his lies with half-truths in order to obtain converts to his satanic doctrines. His cleverness lay in exposing the faults and failings of democracy and, in particular, the sins of hypocrisy committed in the name of plutocratic, capitalist Britain. Too many of his accusations, I am afraid, went home. But they happily caused us to see our own sins. So, when the battle started, and the military might of the new Goliath was measured against the stone and sling of the British David, we realised that we could only win this war if we fought with clean hands as well as a stout heart. Being forced to fight against the devil, we felt obliged to take up a crusade for good. That is why we are now resolved to eradicate the evils in our national life which have been exposed. That is why we are so thoroughly ashamed of our pre-war past. But have the pre-war politicians, the "guilty men", some of whom still occupy high places in the Government today, clear enough eyes to perceive the spiritual regeneration of a nation? Most of them were elected and alive so long ago that they cannot perceive anything except the regularity of their annual Parliamentary stipend.

This fundamental difference in the concept of our cause brings about that dangerous rift between rulers and ruled which is the first and foremost cause of bad national morale.

The Fortunes of War

I have just been reading a leading article in a popular illustrated weekly which says, in so many words, that our reputation abroad is mud, that our morale at home is rotten, and that instead of moral leadership, all the public gets is a bad propaganda service.

There is some truth in these rude accusations. Our

reputation abroad is not my concern in this book, but I have had some experience of our domestic propaganda, and would offer these reflections on morale by way of introduction to my theme.

Of course, the national morale has gone up and down with the fortunes of war.

"It's a phoney war," we used to say in the first six months. Some of us were convinced that Neville Chamberlain had some secret understanding with Hitler not to bomb each other's cities. How else could we explain the dropping of those silly pamphlets by our gallant Air Force all over Germany? I always feared that we should run short of paper. Our morale sank low under Neville Chamberlain, whose Government, after all, was partly composed of the men responsible for our shameful past of complacency and unpreparedness. My Uncle George, a staunch supporter of that pitiful régime, used to pretend that we were playing a clever, deep game with Germany.

"If we don't go to war in the west," he said, "Hitler will move east and fight the abominable Russians, and then make a peace with England, dividing the world between the two great empires."

That was the wishful thinking of the Chamberlain Government. I remember walking out of the House of Commons' dining-room a year before war broke out, indignant at my host, a Baldwin–Chamberlain member and an old school friend. This Conservative reactionary dared to argue that it was useless to stand up to Hitler because the Germans were the most efficient race in Europe and were entitled to dominate the Continent anyhow. I never wore my old school tie after that—not until the war started, and then I had to put it on again in self-defence, because I used to forget my Identity Card.

After the "phoney" phase the war passed quickly to disaster—the evacuation from Norway and the *débâcle* in France. The national gloom was profound. A sea-faring nation always hates being pushed into the sea. When the premiership passed from Neville Chamberlain to Winston Churchill on May 11, 1940, the nation uttered a sigh of relief. At last we had a great man, a fearless leader, at the head of our national affairs. We owe a big debt of gratitude to the Prime Minister for restoring our morale in those dark days, for breathing into our spirit the will to endure unto death or victory. But after two evacuations—

to be followed on by several more—confidence in our military leadership could hardly be restored at once. After all, it was as late as April 4th, 1940, that General Ironside, then Chief of the Imperial General Staff, reassured the people that "Our Army has at last turned the corner. . . . The Germans gave us these months to build a real fighting force." Dunkirk followed in June.

After that, the military high command seemed to encourage talk about spies and invasion. We had entered upon the "scare" phase. I well remember the Fifth Columnist scare, because a neighbour of mine, a farmer, was suddenly arrested by the military. His name and address had been found, by mere chance, in the pocket of an Army deserter who pretended that he had arrived in the ditch, where he had been discovered, by parachute. This completely innocent farmer was thrown, together with his wife and daughter, into the cells of the military barracks for a day and a night, his house was ransacked for papers, his cowman was arrested and only allowed to milk the cows under an armed guard, all because of the hue and cry for Fifth Columnists which the military authorities had set in motion. But the potential Fifth Column of England had been safely locked up since the beginning of the war.

The spy scare was followed by the invasion scare. In the early hours of one morning in September 1940, the report had been flashed round that the Germans had set sail in their invasion barges. As dawn broke that morning, I found myself standing as a Home Guard sentry in my village, armed with a sporting gun and a few cartridges of buck-shot, and feeling (and looking, no doubt) extremely silly. The road barriers were ready, which any vehicle could have avoided by going round the fields, and we of the Home Guard were cheerfully prepared to die, being almost bound to shoot each other when the firing began. It would have done our leaders good to have heard the ribald conversation of rustic sentries during the night watches. It had already dawned on them why the Home Guard were expected to counter German automatics with shot-guns or, as someone put it, to meet tanks with pitch-forks. Things, of course, have changed since then. The Home Guard is now issued with automatics as well as with pikes.

But the invasion scare served a good purpose. It shat-

A total war economy implies that not a machine and not a man or woman shall be engaged upon the production of anything which is not wanted as a munition of war or as an essential of civilian life. It follows that unnecessary private labour, and useless spending of every sort, must be ruthlessly eliminated. No waste of plant, labour or time must be tolerated. No private enterprise must be allowed which is not in tune with the rhythm of total war. This is a hard definition of the economics of total war, but it is true.

If you look casually any day at the advertisements in the Press, you could not believe that total war is so understood in Britain. You would deduce that we are just playing at the game. In the personal columns you will see calls for servants in large households which could be cut down or shared with other people. In other columns you will find advertisements of the luxuries and pretty things which women could do without. Everywhere you will meet with incitements to spend. To encourage the spending of clothing coupons one store has even advertised the payment of a cash dividend on the amount of money expended on rationed goods within its premises. In January last we were regaled by the advertisements of New Year sales in the big stores of goods which will never be replaced for the rest of the war. Is a Saturnalian feast the way to eke out the diminishing stores of the beleaguered fortress? And, more amazing still, you will find two-column spreads of "goodwill" puffs bearing great industrial names, which are no doubt designed to show that these industrial firms are prosperous, solidly entrenched and thinking of the post-war future. But is it helpful for the public to read, when travelling perhaps in overcrowded and uncomfortable trains, that So and So are the "best cars in the world"? Of course, these puff advertisements may cost the companies nothing if chargeable as an expense against Excess Profits Tax, but one wonders why they are allowed to appear in the middle of a severe rationing of paper[1] which threatens even to cut short the supply of cultural and useful books. One marvels that a Government charged with the morale of the home front should have it advertised daily that the national economy has not been turned over to total war.

[1] The *New Statesman and Nation* has mentioned an advertisement early in November in the *Radio Times* of a quarter-page appeal to buy fireworks. The paper used for that appeal was equivalent to half

The most impudent affront to a nation striving to wage total war was an advertisement I saw in *The Times* in the summer of last year, displaying a gentleman's tailored coat with the placard "No Coupons". It was not some trader cheating the Board of Trade; it was only a firm of advertising agents trying to catch the eye of the prosperous industrial companies then puffing their good-will so loudly. "When peace comes rationing will go," said this display of bad taste, "so plan your sales campaign ahead and consult our advertising organisation."

Equally inexcusable was the waste of paper incurred by some industrial companies which advertised congratulatory salutes to Russia. The Communist peoples of Russia know that we, the people of Britain, salute their bravery; they do not need to have a testimonial to their character paid for ostensibly by firms of English capitalists waxing rich on war contracts.

When they look at these advertisements, the public must wonder whether we are still playing at total war. Is that good for the national morale? But the Ministry of Information dare not stop the exhibition of these insults to the national prestige. They dare not interfere with private enterprise, with the vested interests either of the Press or of their large advertisers.

So, while the Chancellor of the Exchequer appeals for more savings, the vested interests of trade display enticements to spend. So keen is the demand for advertising space in the shrunken newspapers of to-day that Government notices are often crowded out or cut down. It has not occurred to anyone to abolish commercial advertising for the remainder of the war.

Do not blame the poor Ministry of Information. The Government must take full responsibility for not waging total war, for having allowed the mass of private enterprise outside munitions to busy itself with profit-making for the best part of two years.

Cheating, Profiteering, Racketeering

When the worm of corruption eats into the body economic the soul goes out. The lesson of France should

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the paper used for the *New Statesman and Nation* for an entire issue with a 45,000 circulation. Publishers of books needed by the Services and the enquiring public are desperately short of paper. A small increase in the paper allowance to publishers would perhaps end the shortage of books, and could be secured from cuts in advertisements.

be before us. In "Strictly Personal" Somerset Maugham wrote:

> "No one who has not lived long in France can know how widespread was the corruption that existed in all classes of the population. There was a general decay of morality, an insane craving for pleasure, and a cynical contempt for honour."

There is no insane craving for pleasure in this country, but there is a cynical contempt for the honouring of war-time rules and rationing.

Not a week passes without the Ministry of Food prosecuting hundreds of food offenders and the Board of Trade dozens of offenders against clothes rationing and quota laws. Cheating the Excess Profits Tax is now so universal and so well-tried that accountants and income-tax inspectors no longer trouble to cross-question. The penalties for economic sabotage were at first absurdly inadequate. Imprisonment was reserved for guilt on indictable offences. For breaking the Defence of the Realm orders only paltry fines were levied. The fines have since been trebled, prison sentences can now be given, and the law has been changed so that racketeers arrested on suspicion are virtually presumed guilty unless they can prove their innocence. When food rationing was introduced it was considered smart to circumvent the law. When clothes rationing came in June 1941 it was thought clever to dress round the rules, convert crêpe-de-Chine sheets into dresses or blankets into coats, buy up loose coupons from street vendors, purchase clothes without coupons at dishonest shops, and in general cheat the Board of Trade. It was never looked upon as cheating the fighting men in the services of their comforts and safety. A black market in clothes, a black market in food, a black market in cosmetics—so it goes on. The Press makes a feature of its racketeering stories. The public cannot fail to read them without hurt to its morale. "Democracy in the end", observed Somerset Maugham in "Strictly Personal", "depends on the virtue of the individual, and a democracy that is corrupt is doomed."

Morale by Propaganda

Until the nation is made to feel that total war is being waged ruthlessly and relentlessly, and that cheating and

racketeering are being mercilessly stamped out, what is the use of Government "morale" propaganda?

There is danger in keeping Truth at the bottom of the well and letting Government propaganda sit on the top. It increases the lack of sympathy between rulers and ruled. In an autocracy, such as Russia, or in a totalitarian despotism, such as Germany, people can be galvanised or mesmerised by Government propaganda—and fear of the police. But in a democracy, where the political police do not terrify or even visibly appear, the public are not fooled by Government propaganda. They respond only to the truth—when it is told them. Indeed, the more awful the reality, the better the response. If we have suffered a defeat, we do not want it called a strategic withdrawal. If we have lost an Empire, we like to know how and why. Then we can start building up a better Commonwealth of Nations.

The Ministry of Information, in my humble opinion as an ex-officer of "Public Relations", fails in its publicity to unify Government and people in the prosecution of a people's war; but it is not altogether its fault. Consider its films. How often do the M.o.I. films make the audiences feel that it is *their* army, *their* navy, *their* air-force, *their* war? Occasionally they approach this ideal, as in "Target for To-night", but have they yet brought the army to the people or the people to the army as the Soviet films have done? Have they stiffened army and civilian morale with any film as "General Suvorov" did in Russia?

So little does the Treasury know about the right morale for a people's war that it devoted nearly £65,000 [1] of the taxpayers' money to a film called "49th Parallel". As a work of the film art it had great merit, but it contained the finest propaganda for the Nazi morale that I have ever seen. The German submarine lieutenant was presented as a fearless, fanatical, ruthless idealist. True, the Nazi faith was exposed by the democratic talkers in the film as filthy and perverted, but the complacency, hopelessness and unpreparedness of the democrats were equally shown up without compunction. If the Government intended this film to be British propaganda first and screen art second, was it wise to enlist sympathy for a Nazi beast by presenting him as "one man against eleven million"?

[1] The Treasury subscribed 48% of the total cost of approximately £130,000.

The little Goebbels would never allow an enemy of Germany to have the least redeeming feature, and when it comes to propaganda you cannot teach anything to that devilish twister of the truth. Goebbels will enjoy the ironical end of "49th Parallel". The Nazi lieutenant, after many hair-breadth escapes, which must excite universal sympathy on his behalf, is only captured on the border by the merest chance—and that is a fluke encounter in a freight car with a Canadian deserter! Will democrats, however pugnacious, achieve victory through lack of discipline? "49th Parallel" would make a lot of money in Germany. But I congratulate Michael Powell, the director of the film, on having enlisted Treasury support for a sincere and truthful work of screen art.

Now take a look at some of the Government Press campaigns. These, I fear, are likely to debase our high purpose by promoting or condoning cheap vulgarities in the hope of stimulating morale. Who encouraged the public to go wild about the "V for Victory" campaign? If a half-starved civilian in an enslaved country of Europe were to chalk V on the pavement before the jack-boots of a Prussian officer, that would be an act of incredible heroism. But for our dress designers to decorate women's busts with clasps of V, for our shopkeepers to placard V on windows still comfortably filled with merchandise, for our advertising agents to push V into their cheap commercial slogans is vulgarity in unnecessary extreme.

And consider the psychological effect of the national appeal for savings. The managers of this campaign might have roused our nobler sentiments if they had said: "Young men are giving up their lives—will you give up your money?" But they appealed to us to lend our money by offering us 3% and "*safety*". Actually, if we had left our money in the banks it would have cost the Government less, for the banks would have lent it to the Treasury in the form of bills or "deposit receipts" at 1% instead of 3%. When the repetition of this safety slogan palled, we were urged to save to buy a Spitfire because it sounded glamorous and thrilling. Of course, not one of the Spitfire weeks organised with tremendous hullaballoo up and down the country could have produced an *extra* Spitfire from the factories. The Spitfire weeks were designed to secure extra savings, not extra aeroplanes. When Lord Beaverbrook moved from Ministry of Aircraft Production to Ministry

of Supply he took this cheap publicity with him as part of his entourage. So we were regaled with Tank Weeks and were asked to subscribe to "Waltzing Matildas". Not one extra tank for Russia could result from that campaign. Now there are Warship Weeks. A tabloid picture newspaper headlines "GIRLS SELL KISSES TO BUY WARSHIPS". We read: "A team of beautiful girls—all single—in an armament factory are selling kisses to help their city's warship weeks. An ordinary kiss costs 1*s*. Customers who want to linger pay 2*s*. 6*d*." We see a photograph of one girl being hugged by a lingerer and another pretty about to receive 2*s*. 6*d*. for the next officiation. "War Savings Certificates bought with the kiss cash will be balloted for." It may not be long before the organisers of War Savings ask our heroes in sky blue to sell osculatory favours at Charity Bazaars. But it seems a waste of good energy to hold meetings, play bands, organise raffles, spout fountains of words for Warship Weeks which will not make one extra warship leave the slips! This propaganda does not even inculcate the fighting spirit of attack. "Lend to Defend" is the slogan! For attack, savings should be made compulsory.

The latest batch of savings publicity falls below the highest standards of public taste. Photographs have appeared of what seemed to be a typical mother and father in a working-class family. The appeal is to the cupidity of our *nouveau riche*. "Listen", says the male. "No Income Tax on these 'ere—Every time I've fifteen bob—straight it goes into Savings Certificates. Then it starts sprouting—gives me a rattling good profit, free of Income Tax. Ah! I'm a wise bird! The £36 I've saved already will be worth nigh on £50 in ten years. Good-bye, Mr Tax Collector—I'm off for some more." The mother says: ". . . And we don't have to pay any Income Tax. . . . We've already got £60 worth of National Savings Certificates, which will be worth £82 in 10 years, and we don't pay any Income Tax on the increase. . . . Do you wonder that we're going on buying." I doubt whether these appeals to our instinct for tax-evasion impress our visitors from Russia. The National Savings Committee is spending £800,000 a year on appeals for voluntary savings when compulsory savings accord more with the national spirit.

No, the morale of the British public is not to be doctored with the propaganda pills and quackery prescribed by advertising agents on the pay roll of the great Bloomsbury

clinic. The soul of Britain at bay revolts against these vulgar tricks and blandishments. The advertising agent, that pre-war parasite on the body economic, must in any case be a danger to the Government Department which employs him. The morale of a democracy at total war cannot be bought or coerced or conjured up by a new propaganda racket in the Civil Service. It will come from a feeling of confidence in the fitness of our leadership, from a sense of unity between Government and people, from the dedication of our economy at home to the purposes of total war. Then will it be expressed in cheerfulness, discipline and the readiness to endure all things to the bitter end. Then will it be possible to bring up Truth from the bottom of the well—and drown that bastard child "Propaganda"

CHAPTER TWO

"EQUALITY OF SACRIFICE"

"Equity would be bound up with the more successful prosecution of the war."—Ernest Bevin in the House of Commons, December 4th, 1941.

"The English people demanded equality of sacrifice from everybody and they are getting what they demanded. It is quite common now to see Englishmen speaking to each other in public, although they have never been formally introduced."—Lord Marley, reported in the *New York Times*, September 3rd, 1941.

For an educated democracy with a developed social conscience one of the rules of total war is the observance of social justice—on week-days as well as on the Sabbath. This touches the public morale at a highly sensitive point.

Many people confuse social justice with "equality of sacrifice". Sir John Anderson does—and *he* ought to know better. In a broadcast talk on March 17th, 1942, he told his listeners: "The Government are not going to ask merely for voluntary sacrifices. They want equality of sacrifice." They might as well cry for the moon. In time of war, equality of sacrifice is impossible of realisation. A poor widow may lose her only son, the breadwinner, but a rich wife may have a still richer husband returned to her bosom safe and sound. A bomb may fall on a one-man shop and end the little shopkeeper's livelihood. Another may fall on a City leasehold and save a firm of brokers from the ruin of an enormous rent.

And in a society which is unhappily distinguished by sharp inequalities of wealth in times of peace, there cannot even be equality of hardships in times of war. If you look at the newspaper advertisements you will see how the rich can still command their war comforts. My Uncle George lives in the country in one of those hotels which only recently were advertising security from raids, an orchestra and the services of a professional golf-coach. With tongue in cheek I recently called this old diehard's attention to an hotel on the Devonshire coast advertising itself as an "ideally situated war-time retreat". But he assured me that it could not improve upon the comforts he now enjoyed.

If you are a wealthy man you can still dine out at restaurants and hotels every night without ration cards or sumptuary tax and enjoy good food and wine if you are willing to pay fanciful prices. (The limitation of "meal" prices will only increase the prices of extras and "service" charges.) The "points" rationing system for canned foods has at last taken away an advantage which wealthy hoarders formerly exploited to the full, but the clothes-coupons scheme still allows the rich to buy better value for their coupons. Before me as I write is an advertisement of a fur company which presents a charming lady in a Persian lamb coat at 89 gns. "This beautiful fur coat, with its sleek tight curls and rippling lustre, is now costing three times the 1939 price to replace." But it will only cost 18 clothing coupons—the same as for a "utility" coat which a working girl has to buy. It was a bad joke to publicise coupon equality as "*fair* shares for all"!

Let us, then, stop discussing "equality of sacrifice" or "equality of hardship". In this imperfect, class-ridden society such beautiful ideals are unattainable. But the question of social justice is a real one, and it does vitally affect the public morale in time of war. What exactly do we mean by it? Said Maynard Keynes in "How to Pay for the War":

> "In a totalitarian state, the problem of the distribution of sacrifice does not exist. That is one of its initial advantages for war. It is only in a free community that the task of government is complicated by the claims of social justice. In a slave state production is the only problem."

Here is the key to the problem. It is not the "inequality of sacrifice" which upsets the public composure in time of war: it is the mal-distiibution of economic loss.

Inequalities of Pay

First of all, there are glaring inequalities between the pay of workers in factories and the pay of soldiers, sailors and flying men who are in the battle. Why differentiate in total war, we ask, between the fighters for democracy? Why make any distinction in the money treatment of those called up to fight in the front line and those called up to fight at the factory benches?

The differentiation between Service pay and industrial pay is in some cases indecent. There is the story of a young hero of the Air Force, a fighter pilot, who had shot down many Germans in the air battle for Britain and had been asked to go round an aircraft factory to give a "pep" talk for the workers. He stopped at one bench, and the worker asked him about his pay. The pilot was a single man. "I suppose," he said, "with my allowances I get nearly £5 a week. What do you get?" asked the hero. "Oh!" said the worker, "I get £10 a week, but then, you see, I get extra because I work during 'alerts'!"

In July 1941 the Ministry of Labour made an analysis of the average wage earned by six million war workers. It came to nearly £5 a week. The biggest wage-packet went to the men making aeroplanes and tanks. Their average was £6 7*s.* 5*d.* a week. No doubt it has risen since. I must not joke about Army pay because the Army Council do not like it. Besides, it has just been increased. The private soldier now receives 2*s.* 6*d.* a day cash (17*s.* 6*d.* a week) and 6*d.* a day deferred pay to be paid on his discharge. This still seems to call for mirth on the music-hall stage, but, to be fair to the Army Council, you must reflect, if you are a bachelor, on the happier lot of the married soldier. To obtain allowances for wife and children 3*s.* 6*d.* a week is now deducted (against 7*s.*) from his pay. Then he can obtain 25*s.* a week for his wife, 8*s.* 6*d.* for the first child, 6*s.* 6*d.* for the second and 5*s.* for the third and each additional child. Thus, the cash resources of a private with wife and three children will be 59*s.* a week (against 41*s.* before the war). Not so bad as it was, but it still works out at a poor rate of pay by comparison

with the industrial worker who is getting on the average 100*s*. a week.

What makes Army pay seem worse than it really is, you will find, is the complicated structure of it. The circumlocutions of the Army Warrant for Pay, with its 1200 articles and seven appendices, are beyond a joke. If the Government could devise a better distribution of economic loss between the workers and fighters for democracy, the Army Pay Warrant would find its rightful place on the historical scrap-heap.

Property *versus* Flesh and Blood

Another cause for popular complaint is the difference in the treatment meted out to valuable property and plant on the one hand and to flesh and blood on the other. When a property or plant is requisitioned, a pre-war commercial rent is paid for it, and the plant has to be maintained so that it can be restored intact and without deterioration at the end of the war. Nothing like that guarantee is given to the man called up to fight. If he has a one-man business, there is nothing said about the maintenance of it. If he is killed, his wife can only expect a non-commercial pension. Why, it may be asked, should a different principle be applied in time of war to vested capital from that applied to human life? Is it that capital has some peculiar sanctity, some sacred interest, so that special rights and privileges have to be accorded to it in times of national emergency?

The Economically Bombed

The owners of property have, no doubt, their own grievances peculiar to themselves. The war has put relatively heavy losses upon the seaside landladies, the travel agencies, the City stockbrokers, the metal brokers, the shopkeepers in evacuation areas, and the restricted or prohibited trades which have had no compensating payments. These unfortunates are no more responsible for the war than anyone else, but they have suffered much more from it. The Government has done nothing to relieve their sufferings except to pass on part of the losses of traders in evacuated areas to those who are unlucky enough to be their creditors. If you are a shipowner whose ship is torpedoed, or if you are a trader with a stock-in-trade which is destroyed by bombs, you will be compensated forthwith —after the usual departmental delays—but if you are a

trader economically bombed out by an order of the Board of Trade which has restricted or prohibited your livelihood, you will just have to grin and bear it.

The retail trades have necessarily been subjected to severe restriction—and some more severely than others—but no scheme of compensation has been devised which will enable them to benefit from the prosperity of, say, the munition trades. Even in the retail trade itself, the shopkeeper in, say, Brighton will be envying the relative good fortune of the shopkeeper in, say, Oxford. And even the small shopkeeper in Oxford will be watching with the green eye of jealousy the trade which is being switched over to the chain stores on the other side of his street. Is it right, he asks, that the large multiple shops, having plenty of ready cash, should buy up available stocks, secure first call on manufacturers' supplies and so snatch business away from the small trader? It must take the heart out of the little shopkeeper to see his customers walking across the road to the big chain store where bigger and better supplies are spread upon the counters. He will know that the Government is keeping in full and prosperous working order the large agglomerations of capital invested in iron and steel, railways, mines, chemical plant, engineering works and flour-mills, but is leaving exposed to the economic blasts the small, one-man trading firms. Is the big vested interest to be the only form of wealth which is to suffer no irreplaceable destruction of itself in this war? The Government must find a satisfying answer to these questions, and find it quickly.

Levelling Incomes

No doubt the ideal policy for total war would be to put everyone into Service uniform, to guarantee everyone an equal income, to call on everyone to fight or to do the work that is required, and to decide or control what everyone should consume. That is the ideal, and it is quite impracticable—from an administrative as well as from a sociological point of view.

What is the next best policy? Should the Government try to maintain incomes in their pre-war relationship to each other? We agree it should try to avoid serious social displacements. It should prevent whole classes of traders from being arbitrarily pushed out of business or individuals being singled out to suffer more than their fellows. But

should it try to improve the pre-war economic position of labour as opposed to capital, or that of the lower ranks of workers as against the higher?

Before the war the inequalities in wealth were certainly extreme and disgusting. The poor [1] made up 90% of the whole population, but drew only half the national income. Nearly 8,000,000 of them were medically condemned as under-nourished. The rich [1] drew one-sixth of the national income and numbered half of 1% of the population. The great middle-class were 10% of the population and drew between a quarter and a third of the national income. Should the Government use its powers in total war to narrow these extremes of wealth and to attempt a levelling of the classes in society?

The Trade Union Claim

Sir Walter Citrine, speaking for the Trade Unions, has declared that it should. "If we were within a society", he said,[2] "where every section of the community had approximately the same standard of life, the case would be watertight, perhaps, for a common sacrifice by everybody. But nobody can argue that the richer classes of the community, aye, even the comfortable sections of the community who are not really rich in the sense of this world's goods but have an assured income, are not definitely better off than the working-class people, and have not felt the burden infinitely less."

Now the Government has admitted the force of this Christian argument by taxing the rich more heavily. Indeed, it has done this so effectively that it has already destroyed the rich man's incentive to work. For example, it no longer pays to be clever or hard-working if you are a successful professional man. A popular playwright like Bernard Shaw, with a fantastic surtax to pay on the top of his 10*s.* income tax, virtually could not afford to write another successful play or produce another successful film like "Pygmalion". Leading barristers have found it cheaper to give up their lucrative practices and seek humble Government or service jobs, where they can be comfortable and not over-worked for the rest of the war. Successful consultants in Harley Street consider themselves

[1] The poor are those with under £5 a week; the rich are those with £2000 a year or more.

[2] Speech to Trade Union Congress, September 1941.

better off if they accept a 5*s.* cigar than a 5-guinea fee. Of course, the nation might be better off if they accepted nothing and closed themselves down. And I do not deny that it might be a national blessing in disguise if rich business men lost their impulse to make profits altogether and retired into private life or private farming. But, unfortunately, while it is easy to make the rich poorer, it is impossible during a war to make the poor better off—in real wages. This is where Sir Walter Citrine departs from his line of logic.

"A Mug's Game to Play"

One of the economic consequences of total war, especially for an island nation, is that the edible national cake does not become larger with the extra work done in the factories. Indeed, shortages of raw materials, shortages of ships and shortages of labour must reduce the size of the cake as the war goes on and as the fighting services call for more men and more equipment. So the civilian workers as a whole cannot increase their consumption by increasing their wages. Of course, any individual with extra money in his pockets to spend can temporarily increase *his* share of the national consumption, but only at the expense of his neighbour's. What seems an advantage to each of us as an individual is to the disadvantage of all of us as a community. As J. M Keynes has said in "How to Pay for the War":

> ". . . A demand on the part of the Trade Unions for an increase in money rates of wages to compensate for every increase in the cost of living is futile, and greatly to the disadvantage of the working class. Like the dog in the fable, they lose the substance in gaping at the shadow. It is true that the better organised sections might benefit at the expense of other consumers. But except as an effort at group selfishness, as a means of hustling someone else out of the queue, it is a mug's game to play."

Now the Trades Union Congress has demanded that the workers must receive a rise in basic wages to meet every rise in the cost of living—regardless of the weekly extras in the shape of overtime pay and bonuses. Of course, after the profiteering which our capitalists indulged in during the world war against the Kaiser, it is not surprising that

our Trade Union leaders should now be trying to get their own back by "cashing in" on labour account in the world war against Hitler. After all, there might not be another war. So Labour headquarters have determined that the unique opportunities presented by the current "war to end war" must not be lost. So far they have secured a rise in basic wage rates of 26% and in average weekly earnings of over 42%—against a rise in the cost of living of 28%. Keynes in the same book pointed out:

> "If aggregate earnings at the existing wage-rates increase because of overtime and full employment, *a rise in basic wage rates sufficient to compensate for higher prices would set our national economy the impossible task of raising consumption above the pre-war level.*"

Whether the workers understand the economics of this war I do not know. The Trade Union leaders have certainly never tried to explain it to them. But I am sure they do not regard themselves as profiteers in demanding and securing these extra wages. They know very well that their employers are meeting *their* extra cost of living by receiving larger tax-free expenses from their companies to the debit of the Excess Profits Tax. They have probably seen the resident directors, replete with good food, wine and cigars, rolling up to the works in cars which suffer no lack of petrol. Obviously, says the worker, *their* standard of living—measured in good living, first-class travelling and entertainment—has not gone visibly down. Small wonder if he suspects his employers of living tax-free or "expenses-paid" at their comfortable private homes. He is sure to have heard the fabulous story—for in war stories travel quickly—of the managing director who had an electric lighting plant installed at his private farm and charged against the expenses of his company. You cannot blame the worker for wanting to "get his own back" with bigger and bigger wages. The trouble is that he does not see that higher incomes will only make the prices of uncontrolled goods soar, the queues of would-be shoppers lengthen down the street and the black markets multiply and boom.

There is, of course, one simple answer to all this folly. The first is to expose, fine or imprison the dishonest tax-cheating capitalists and racketeers. The second is to enlighten the workers to the true economics of total war and

induce them to agree to the stabilisation of wages. It should be explained to them that they must accept the major part of their increase in wages in the shape of deferred pay or savings certificates—in other words, that they must not try to spend them. In the last war the capitalist profiteers accepted their increased share of the national wealth in the shape of War Bonds—in other words, national debt. They did not try to consume it all immediately. In this war the workers can do the same; they can become part-owners of the new national debt.

. . . . .

If the public morale, then, is to be restored, the Government must show that it understands the real implications of "equality of sacrifice". It must promulgate a plan to secure the more equitable distribution of economic loss. I have written what follows as a modest contribution to the peaceful solution of these national complaints. I suspect that not a few "high-ups" in Whitehall will heartily agree with me, although they will not dare to speak the truth in their Minister's room.

PART II
THE VESTED INTERESTS AT WORK

CHAPTER THREE
TOWARDS MONOPOLISM

"The sense of being a possible part of one complete social organisation is not given to them."—WILLIAM CLISSOLD on bankers in "The World of William Clissold", by H. G. Wells.

THIS CHAPTER is expositive and historical, but not, I hope, dull. It is vital, anyway, to the development of my argument. To prove that total war cannot be waged efficiently or with social justice by and through the existing economic system, I must explain in some detail how the vested interests were running and exploiting the country before the war. This *exposé*, which may be thought brutally frank, is in part political and in part economic, but the two are unavoidably mixed up.

POLITICS

This section, I pray, will not be read as a sinister or impertinent attack upon the British institutions of democracy. They are grand institutions—when everything is peaceful and when they are not exploited too much by vested interests or racketeers. Far be it from me, a radical democrat, to question the democratic faith. I am well aware that the parliamentary practice of it is particularly suited to the more hypocritical side of our national character. There are certain institutions in our political life which we pedestal above criticism, and one of them has always been our Mother of Parliaments. That is why it has not been difficult to convince ourselves that our democratic institutions are worth fighting for—as an alternative to the perverted and degrading institutions of Nazi Germany. Besides, we hate dictatorship and all dictators.

But that does not mean that we have not plenty to reform. If the House of Commons can be relied upon always to rise to a great occasion, to express, when there is a call, the loftiest sentiments and the finest spirit of the nation, it

will often play for sectional vested interests against the real interests of the community. While we are ready to take up arms and die for the institutions of democracy, our politicians should not imagine that we are fighting just to preserve that sickly and shameful form of "vested-interest" democracy which has been poisoning our national life since the first "National" Government was formed in 1931. We fight for a reformed democracy.

The political question is complicated by the fact that the present House of Commons is the Rump of a Parliament which has long outlived its mandate. It was originally elected in November 1935, and unknown to most of its members, a new age has been born in the succeeding six years. Indeed, that infamous campaign of November 1935 brought 431 "National" men to Westminster on the greatest hoodwink ever perpetrated upon an ingenuous British electorate. It was concerning that election that Baldwin told the House of Commons in 1936: "Supposing I had gone to the country and had said 'Germany is rearming: we must rearm'. Does anyone think that this pacific democracy of ours would have rallied to that cry? Not at that moment. I cannot think of any change which would have made the loss of the election, from my point of view, more certain. . . . We won the election by a large majority."

It did not apparently occur to Stanley Baldwin that a leader is meant to lead. When his lordship later on revealed the inner workings of his Conservative soul to the House of Commons, he confessed that he had been greatly impressed by the "pacifist agitation" in the country. This in itself was strange, because the head of a political party should know better than anyone else how a national agitation is engineered and how little it represents the real voice of the people. The pacifist agitation came from the Peace Pledge Union, which made little headway. This is not to be confused with the Peace Ballot organised by Lord Cecil and the League of Nations Union. This "agitation" was for arming the League of Nations, and I should say that half the people who answered the harmless Peace Ballot questions did so because they wished to annoy Stanley Baldwin and express distrust of the Government's foreign policy. The public were certainly alarmed at that time by competitive national armaments—and confused by the Nazi anti-Communist propaganda.

Following this Peace Ballot canvass there came a by-election in East Fulham, and Baldwin afterwards confessed to the House of Commons that the losing of this Conservative seat to a Labour candidate was another warning to him that the country was not ready to re-arm. This truly marked the cerebration of a stubborn or ignorant mind. The successful candidate was an old friend of mine, John Wilmot, one of the most level-headed members of the Labour Party. I have often discussed the election campaign with him, so that I should know my facts at first hand. On nomination day Hitler took Germany out of the League of Nations. This gave a foreign political twist to the election. John Wilmot declared for arming the League in order to resist Fascism, but his opponents alleged that he stood for a Britain warlike and weak, while Baldwin stood for a Britain peaceful and strong. We now know the truth. Arming the League of Nations might have involved Britain in a war with Italy over Abyssinia, but it would have forced Britain to rearm, and it might have postponed indefinitely—who knows?—the present world war. Foreign politics apart, what turned the scales in John Wilmot's favour was that West Kensington had some of the worst slums in London, that his Conservative opponent was a landlord in the district, and that Wilmot, a member of the L.C.C., stood for good municipal housing. My recollection is that a photograph appeared during the campaign of a narrow alley in West Kensington with slum houses served by a single water pump and a single latrine at one end. More votes for John Wilmot were probably won by that pump or that latrine than by any Peace Ballot campaigning.

I doubt whether these Baldwin men, now at Westminster, these ignorant hoodwinkers, ever represented Britain. But if the mind of Britain was muddled in 1935, it is not muddled today. It has no use for politicians of this calibre who place party before truth, office before national security. Yet these place-seekers hang on as our representatives, postponing, on account of the war, the elections which were due in 1940. When by-elections turn up, the two parties agree not to compete, so that an independent non-party candidate has a rare chance of election—and a good chance of losing his deposit. It only remains for them to emulate the Long Parliament of King Charles I, which tried to secure its own perpetuity by

enacting that it could not be dissolved without its own consent. Sincerely I hope they will refrain from so provocative an act. On the last occasion when the House of Commons got carried away by the same sense of its own importance and power, it had to be dissolved forcibly by Fascist-minded soldiers, in particular by one Cromwell. We do not want a repetition of Army or State Fascism, with England divided under Major-Generals or Churchillian Ministers of State. But it is surprising how often history does repeat itself. We must be on guard lest in the revolutionary upset of a chaotic peace the cry is raised again in Parliament that the elections must be postponed in the interests of "safety" or "security". Should that cry be heard, we must be alert to perceive its true significance. It will mean that the safety and security of the vested interests are at stake.

Vested Interests in Parliament

Historically, Parliament was composed of three Estates, the King, the Lords—temporal and spiritual—and the Commons. The King has long since passed out of the Estate business by becoming "the first gentleman in the land". The Lords no longer count as a political force. They may be an economic force when they have vested interests strongly represented in the Commons, or a spiritual force when a Bishop develops a social conscience and comes out with Marxist spots. So political power today rests solely in the Commons, which represents not the nation as a whole, but the two exploiting parties in the economic field—organised capital and organised labour, or, as I prefer to put it, the employers' unions and the labour unions. These two factions fight each other politically for the economic spoils. You and I, the consumers of the goods they make, are their cannon-fodder.

Capital, or the employers' unions, is admirably represented by the Conservative Party. Are not its members all numbered in the Directory of Directors? Are they not all drawn from the moneyed and propertied classes? Do not retiring Ministers of the Party invariably amass City directorships as pensions for their old age? The Trade Unions are, as faithfully, represented by the Parliamentary Labour Party, whose socialist slogans, no doubt sincerely spoken, support the bargaining of the great Trade Union bosses. Each party puffs unashamedly in the Commons

the claims of its sectional and class interests. I ask you, disinterested reader, is a parliamentary system working on these sectional and selfish lines likely to produce an administration fit to run a war on totalitarian lines? Can you gather grapes from thorns?

The rules of the parliamentary game merely prescribe that no member shall advocate a policy in which he has a private financial gain without publicly disclosing it to his fellow buccaneers. If he were guilty of that offence, he would be rapped on the knuckles and suitably reprimanded, as was the over-zealous Robert Boothby for his special pleading on behalf of the Czech financial assets. But every member is free to plead for his class financial gains. Railway members talk railway-*versus*-road politics, brewery members beer politics, "big business" members monopoly politics, Labour members Trade Union politics—and so on. Both parties pursue—in session and out—their selfish, sectional interests, irrespective of the general interest of the community. They do this openly enough because they both blindly believe that their sectional part is greater and better than the national whole. The only difference in their tactics is that the business employers backing the Conservative Party are rich enough to spend large sums in manipulating public opinion—through advertisements and propaganda—in support of their Parliamentary projects, whereas the Trade Union bosses bluntly call a strike.

Let me briefly expound their economic policies. The Conservatives stand for bigger and better profit-making because they see the national economy in balance only when profits are high enough to secure full employment. As low profits bring unemployment, the Tories honestly believe that each industry should be protected against too much competition either from abroad or at home. They would therefore prefer to see industry organised on monopolistic lines. They would divide the country into industrial spheres, each ruled by a powerful combine or employers' federation, protected by high tariffs against foreign competition, and untrammelled by interference from the State except when legislation is required to shut out competition or to stop price-cutting.

Of course, what the Conservative Party cannot appreciate, or refuses to see, is that high profits for the monopolistic industries are not necessarily to the advantage of

the nation as a whole, that these profits might even be secured at the expense of other sections of the community. They are blind to the economic truth that the highest standard of living for the greatest number of people can only be secured by the maximum output of goods at the minimum level of prices. Does not the ideal industrial monopoly always try to keep demand straining to buy its product at the dearest level of prices? Certainly it will lower prices gradually as costs fall—as the aluminium and nickel monopolist combines have done—but there will always be a big lag between the two and there will always be an over-generous margin between costs and prices. Certainly the monopoly will prefer to concentrate production in its most efficient plants, but it will often stifle or kill a new invention which would revolutionise production and make its plant obsolete. Remember that if it closes down its less efficient factories, it has to carry the cost of that dead-weight on its own books, or, if it wishes to avoid a complete shut-down of the less efficient, that it will have to run all its plants at short capacity. In either case the dead-weight or the extra cost is passed on to the consumer. You and I, the consumers of their products, will pay the extra price.

My friend Geoffrey Crowther, the editor of the *Economist*, has happily dubbed the new order of the Conservative Party "the new feudalism". It has, he says, all the advantages of the old feudalism: everyone knows his place and has security of tenure. But it has also the disadvantages of feudalism, for power is placed in the hands of those who are satisfied with the state of things as they are.

> "If you put the control of industry in the hands of these established and vested interests, what progress can you expect? . . . Feudalism and progress have never marched together." [1]

The Parliamentary Labour Party represents vested interests as strongly entrenched as those of the Conservative Party. It is financed by the big Trade Unions and plays their game. Do not imagine that I am attacking the existence of Trade Unions as such. Workers must, of course, be organised to bargain and improve their lot. Trade Unionism should be a vital, healthy part of any industrial community. But I criticise the way in which the workers

[1] "Economics for Democrats," by Geoffrey Crowther (Nelson).

are being led. Observe what sort of a game their bosses are playing.

The primary aim of the Trade Union leaders has always been the simple, straightforward one of raising wages and shortening hours, regardless of the effect on the national economy as a whole. Of course they know that wages cannot be increased except at the expense of profits—unless both capital and labour agree to pass the burden on to the consumer. You will find that whenever the Trade Unionists have won a bargain they have raised no objection at all to the subsequent raising of prices. It is not, therefore, the policy of the Trade Unions to oppose the monopolistic trend of big business. Their only quarrel with the new feudalism is over the division of the swag. The only concern of the Trade Union leaders is to be as nimble and as adroit at bargaining at the conference table as the leaders of the Employers' Federations. Neither side, as we know, considers the community as a whole when they meet. After all, when you choose to go hen-roost robbing with your rival in crime you don't ask the permission of the hen. The Trade Union bosses are just as blind as the great employers to the economic truth that unless the national output of useful goods is constantly increasing, one section of the community cannot benefit except at the expense of another.

Monopolism is, indeed, as much the breath of Trade Union rule as it is of the new feudalism. Trade Union practices are just as restrictive as those of the Employers' Federations. The Trade Unions would limit the inflow of apprentices or the numbers of new entrants into an industry. They would erect a wire fence round each trade and allow no non-Trade Union labour to get inside. In the middle of the war the Miners' Union have raised once again the question of the closed shop, demanding that non-unionists should be excluded from the benefit of wage concessions negotiated by their Federation. The Unions have, of course, agreed to dilution of labour for the purposes of war, but they have extracted from the Government a promise that after the war there will be full restoration of their practices and privileges. Thank Heaven, the employers have not yet exacted a Restoration of Practices Act for their own racket. So the primary aim of the Unions is to give labour a next-to-scarcity value, just as the employers' aim is to give their products in the market an

unsatisfied-demand value. The workers' Unions pursue the same methods as their bosses—and Heaven help the consumer when they both agree to fleece the public! Under the conditions of either industrial monopoly or Trade Union rule there is no guarantee whatever that the national output of useful goods will be increased or cheapened. In other words, there is no guarantee that the standard of living of the nation as a whole will improve.

The secondary aim of the Trade Union leaders has been to secure a share for their officials in the management and control of industry. If this secondary objective is difficult or impossible to obtain, it is, of course, always dropped in favour of the "bird in the hand"—the raising of wages or the shortening of hours. But it suits the Trade Union bosses to let the politicians of the Parliamentary Labour Party declaim their socialist slogans in the House of Commons. It sounds well in Parliamentary debate for the Labour members to wave the flag of joint control of industry by masters and men. The Parliamentary Labour Party no doubt honestly intends to improve and reform the existing economic order when it has a chance. It has declared that it will nationalise the banks, the railways and 'bus companies, electricity, gas, water, coal, agriculture, and try to reorganise iron and steel, textiles, shipbuilding, engineering, and so on. But does it give any guarantee that the economic system will work any better for these reforms, that slumps will be avoided, that industries will be managed more efficiently when Trade Union representatives sit on their boards, that economies of operation will be secured by multiplying the hordes of minor Trade Union officials? I am afraid that the Labour world, with its socialised industries existing side by side with privately owned enterprise, will work even less efficiently than the capitalist system today, that there will be more jobbery and place-hunting, more waste and muddle, and that the endless boards and committees, with their luxury Trade-Unionist bosses as chairmen, will spell disaster for the export trade, if not for every other.

How much the Trade Union leaders think of the socialist faith of the Parliamentary Labour Party was accidentally revealed by Ernest Bevin in the production debate in the House of Commons on December 4th, 1941. He was asked whether he still agreed with the resolution of the Labour Party at its Bournemouth conference in May 1940. Their

resolution was as follows: "While planning for war, the Government must plan for peace and a new society, and thus railways, the coal industry and substantial parts of the arms production should be made national services during the war, and the public regulation of finance should be strengthened and consolidated." To this question our Trade Union lord tartly replied: "I do not know what happened at the Bournemouth conference. I have long ago given up that awfully fatal habit of reading either my own past speeches or anyone else's, because we live in a changing world."

The Trade Union leaders, you see, are realists. They really care not a fig for socialist theories or ideals. They look on the practical side. All they want is their share of the swag when it comes to dividing profits.

Capitalism Resurgent

Contrary to the teaching of theoretical socialists, the capitalist system before the war was not dead or even moribund. I was working in it, and knew it to be very much alive and kicking. It had then survived, for example, nearly twenty years of Montagu Norman as Governor of the Bank of England. It was not even killed by the return to the gold standard in 1925, which left the pound sterling seriously over-valued in the international exchanges. A system which was not destroyed by an unintelligent money control could not lack virility. The old capitalism not only survived the chronic irritation of Montagu Norman at home, but the virulent epidemic of economic nationalism abroad. The loss of exports to the high-tariff countries and to the totalitarian dictatorships was a blow, but not a mortal one. And if the old capitalism was disturbed by the attacks of the Parliamentary Labour Party or the advance of State control in industry, it never showed signs of being beaten. It became wisely reconciled to the growth of Trade Unionism at home. It cleverly adapted itself to the new political environment, the increasing interference of the State in industry, the dualism of capitalist and socialist forms existing independently of each other in one economic system. The secret of its success was that it began to protect itself with a sort of Maginot line of concentration and monopolism. In other words, the large industrial companies quietly bought up their competitors and began to form gigantic trusts. And

as soon as the "combine" assumed power, it began to dominate the employers' association of its particular trade and to work for a complete cartel. I will give only the leading examples.

I should begin perhaps with the oldest and most topical —armaments. Here the Vickers-Armstrong group reigns supreme. No combine has a better knowledge of the intimacy between big business and politics. The only trouble is that an armaments combine does not confine itself to one Government, but arms your friends and enemies alike. The machinations of the armament ring are outside the province of my book, but I would refer the inquisitive to the life of Sir Basil Zaharoff, who was an agent for Vickers. And before leaving armaments it may not be out of place to mention the revelations of a recent Congressional Committee which examined the books of the Standard Oil Company of New Jersey. This parent company of the old Standard Oil trust had a cartel agreement with the German chemical combine I.G. Farbenindustrie for the interchange of patents. This enabled Standard Oil to stop the development of a synthetic petrol industry outside Germany and Italy. When Standard Oil invented its own process for the manufacture of synthetic rubber (Butyl)—at half the cost of the German product (Buna)—it had to give the patents to the Farbenindustrie and its subsidiary, the Pirelli Company of Italy, and to refuse them to the American Government as well as to British and other foreign companies. This record was no worse, according to the Assistant Attorney-General, than the cartel restrictions laid upon aluminium, drugs, and dyes. Monopolies always tend to impede progress by obstructing competitive inventions.

Next to armaments in influence in Whitehall are the railways, which were merged into four main lines by the Railways Act of 1921. They work as one body through the Railway Companies' Association. Together with the Underground group, the agglomeration of their issued capital comes to £1,221 millions. The railways, incidentally, have bought up the large road-haulage companies. In passenger motor transport Tillings are the combine which matters. It is not due to lack of trying that Thomas Tilling have not yet succeeded in amalgamating all the independent bus companies.

Then we have Imperial Chemical Industries, born out

of Brunner Mond, Nobel Industries, United Alkali and the British Dyestuffs Corporation. This trust acquired every independent chemical company it was able to lay hands on, and now dominates the chemical trade of the entire country.

The Associated Portland Cement fought hard to absorb the whole of the cement trade, and after years of price-cutting struggles has at last succeeded, for it is now responsible as a group for 90% of our great cement industry. How many plants it has closed down in the process it does not divulge in its accounts.

British Aluminium is another powerful monopolist: it has carved up the aluminium trade of the country with the Canadian combine controlled by the Aluminum Company of America, with which the Roosevelt administration has had many passages of arms. Aluminium is perhaps the most complete of all industrial monopolies.

Tate and Lyle have bought their way into an effective sugar-refining trust, and are occasionally buying up sugar estates in the West Indies. I should add that the growing of sugar beet at home is now trustified through the Government agency of the Sugar Beet Corporation, of which Tate and Lyle are one of the largest shareholders.

Then there are Turner and Newall, which have acquired a virtual monopoly of the manufacture of asbestos in this country; Distillers, which control the commercial alcohol industry as well as whiskey distilling; General Electric, which is the combine astride the "light" electrical industry; Amalgamated Metal, which dominate the metal-brokers, and Courtaulds, which have bought up or bankrupted every artificial silk company except British Celanese and a few others of no importance. I need hardly mention the tightly organised control of sales held by the Imperial Tobacco group and their allies in the tobacco trade, or the stranglehold of the petrol trade acquired by the petrol combines. So powerful is the petrol trust that it is now, I am told, unheard of for an outside importer to ship a cargo of independent petrol to this country and get away with any profit.

But perhaps largest of all monopolies in size of capital and numbers of satellites is the great Unilever, the amalgamation of the Margarine Union and Lever Brothers. This colossus dominates not only the soap and margarine industry of the British Empire, but, through its Dutch

associate, the European industry as well. What is more, its subsidiary, United Africa, controls both the export and import trade of West Africa. It is virtually impossible for independent traders to sell goods to the West Africans. As it is the chief, and in some cases the sole, buyer of West African produce, the United Africa Company is able to force its own terms on the native growers, both in regard to the prices at which it buys from them and the prices at which it sells to them.

Last, but not least, for it is the instrument of the monopolists' power, is the group of British Joint Stock Banks known as "the big five".

I am not suggesting that these near-monopolies are using their powers in an anti-social manner. Some are more enlightened than others. Some even acquire a social conscience as well as political influence. But as a monopoly grows into being, it has the opportunity to work for its own interest against that of the State and the power to suppress any new development which may affect adversely the earning power of its assets. When I come to an appraisal of the cartels formed by a resurgent capitalism for fixing prices and dividing up markets, I can find nothing to beat those which the Trade Unions and our "National" Government have backed and legalised through Parliament. This illuminating story requires a chapter to itself.

CHAPTER FOUR

"NATIONAL" GOVERNMENT—FOR CARTELS

"Tomorrow every Duchess in London will be wanting to kiss me."—RAMSAY MACDONALD on the eve of the formation of the first "National" Government in the spring of 1931.

THE STORY begins with coal—on the eve of the National Government. In 1930, the Labour Party was in office, but not in power. Being financed largely by the Miners' Union, it felt obliged to deal with the coal problem, for the politician is nothing if not subservient to his controlling interest. The Coal Act which it passed was severely mauled by the Conservative Party, especially in the House of Lords, so that the responsibility for the Act which finally emerged must be placed jointly upon both parties. But it is significant that this was the first of the

industries to be encouraged by the Conservative and Labour Parties to turn itself into a monopoly governed by the employers' union and the labour union. The industry was given power not only to limit the output of its producing units, but, what is much worse, virtual power to fix its own prices. It is only fair to say that the original idea of the Labour Party was that these monopoly powers should be granted as one side of the bargain only—the other being the amalgamation of the mines for the purpose of economy and efficiency—but by legal obstruction and Parliamentary lobbying, the mine-owners have cleverly avoided implementing that part of the agreement. Succeeding Conservative Governments have resisted any enquiry into excessive coal prices and meekly supported the mine-owners whenever they in turn resisted attempts at compulsory amalgamation, although I am not suggesting that the compulsory amalgamation proposed was the most desirable. Is it surprising that in 1937 British coal output under this monopolistic legislation was lower than in 1929?

But to complete the story of coal I must carry the political record forward to the illuminating debates on the Coal Bill in 1938. The cartelised coal industry was then being accused of extorting excessive prices from the consumers of coal, and a proposal was moved in the House that a public enquiry should be made into the working of the coal-selling schemes to determine whether or not they were being used by the industry to force up the price of coal to an unreasonable level. Here was an implied conflict between the interests of the cartel and the interests of the community as a whole. It was highly significant that the Labour Party, following the lead of the Miners' Union, voted for the industry and against the public. The case was not perhaps typical of all such unholy combinations, for there is a profit-sharing arrangement in the coal-mines by which the workers share immediately in the extra profits of the employers. But the incident reveals the awful truth—that the Trade Unions cannot be relied upon to prevent the trend towards monopoly.

The Iron and Steel Cartel

Now for the case of iron and steel. You will remember that the first "National" Government of Conservatives under Baldwin and the renegade Labour men under

Ramsay MacDonald, was formed in August 1931 to protect the gold pound—that is, to prevent the depreciation of the sterling exchange. One of its first acts was to abandon gold, and let the pound depreciate. This, of course, was the sensible thing to do, but it did not excuse the faking of a "National" Government for this purpose. One of its next steps was to enact protection, to pass the Import Duties Act of 1932, which laid a 10% duty upon the majority of imports. Industries desirous of higher tariffs were allowed to apply to an Import Duties Advisory Committee. This was a clever move which defeated any attempt to attack the protective tariff as a whole. Whenever the Government was called to account, it could pass off its responsibility on to the Import Duties Advisory Committee. The Committee, of course, undoubtedly tried to keep in mind the general interest of the community, but as it had to deal with each industry separately and in isolation, it was difficult for it to keep a national point of view. The industries applying for higher tariffs were, of course, strongly organised, and able to manipulate opinion by the organisation of news and comment in the Press and by Parliamentary lobbying. The consumer, or the community as a whole, endangered by excessive tariffs, was not represented at all, and was not organised to present a case before the Committee. Even when the consumer, as in the case of steel, was not the unorganised private citizen, but a bunch of powerful industrialists like motor manufacturers, the opposition was still weak, for these consuming industries themselves wanted the help of the Committee in obtaining duties on their own finished products.

The inevitable result of this tariff system which the Conservative Party proposed, and in which the Labour Party has acquiesced, was that every organised industry got the degree of protection it needed to guarantee the independent existence of the members of the employers' federation, whether or no the existence of those members was in the interests of the community as a whole. The Import Duties Act was the vested interests Act, providing protection primarily for the employers' union and their profits and, secondarily, for the industrial Trade Unions and their wages.

It was not surprising that the first industry to be granted a stiff protection under this Act was the steel industry.

Here the Conservative Party, with the acquiescence of Labour, was able to bestow enormous benefits on its powerful industrial friends. The steel tariff effectively restricted foreign competition in the British market, and by threatening to reduce foreign imports still further, the Government was able to frighten the international steel cartel into giving the British industry a bigger slice of the overseas markets. But the Conservative "National" Government went farther. It encouraged steel, as Labour had done coal, to turn itself into a monopoly. Individual firms were advised to join the Association for their section of the industry, and these Associations were tied up together in the British Iron and Steel Federation. If any foolish individualist tried to object, the Conservative "National" Government gave the Federation effective power to compel obedience, for members of the Federation were allowed to import certain supplies of raw steel at a specially low rate of duty. In other words, if members of the Federation could obtain their raw material cheaper than non-members, who could afford not to become a member? The result of this legislative favouritism was to turn the Iron and Steel Federation into the tightest of all industrial monopolies in Great Britain. Of course, the Conservative Party maintained that it was acting in the best interests of the community. It pretended that it was reorganising the industry in the interests of efficiency and economy, and it appointed an independent chairman —Sir Andrew Duncan, ex-chairman of the Central Electricity Board—to sit at the head of the executive in Tothill Street, Westminster, whenever it met to discuss prices and economic policy. But with what results? Technical efficiency was increased without any increase in economic efficiency. Prices of steel were raised, and the independent chairman, presiding over his committee of hard-faced manufacturers, was helpless to resist the increase in prices even if he had wanted to. And there is no evidence that Sir Andrew Duncan ever did. In 1937 British steel prices were so high that the consumers of steel stopped buying. Lord Nuffield, himself a strong believer in, and beneficiary from, protectionist economics, declared himself tempted either to buy steel from America or to make it himself rather than submit to the prices demanded by the British monopoly.

The Case of Richard Thomas

The unholy union calling itself the first National Government, with Ramsay MacDonald and Baldwin alternately at its hypocritical head, naturally gave a great impetus to the industrial trend towards amalgamation and monopoly. In addition to coal and iron and steel came legislative favours to textiles, shipbuilding, and others. Whenever any industry wanted legislative sanction to the scrapping of redundant plant or factories or yards, to the amalgamation of rival firms and the elimination of competition, it got the National Government to grant it without any trouble—beyond the advertising, puffing, wire-pulling and political lobbying which the vested interests ordinarily use to secure their political ends.

Two practical instances may now be given of how a capitalistic trust, protected by Act of Parliament, may work to the great injury of the nation as a whole, if to the temporary advantage of its members. The first is the case of Richard Thomas at Ebbw Vale. When the new tariff imposed by the Conservative Government in 1932 had shut out cheap imported steel and had made the tin-plate industry dependent on home-produced supplies, Sir William Firth, Chairman of Richard Thomas, a rugged individualist of the Victorian entrepreneur type, decided to build at Ebbw Vale a gigantic strip-mill on American lines. In such a mill the steel can be rolled in wide continuous strips as a continuous process from raw material start to finished plate. It was badly wanted, for South Wales was rapidly losing its export trade to the modern strip-mills of America and Germany. Sir William Firth was convinced that if this country was to preserve her existing trade and attempt to regain her lost markets, she must adopt the new technique. He was not thinking specially of the workers in South Wales. A strip-mill on the American pattern would employ less labour than a steel and tin-plate works operated on out-of-date lines. But he saw a chance of big business, for both the tin-plate and motor-car manufacturers were keen to secure cheap strip which the machinations of the Iron and Steel Federation had made impossible.

Of course, a furious opposition to Sir William Firth's plans developed. If the new Ebbw Vale works could cut prices, the tariff-protected members of the Iron and

Steel Federation would suffer as much as the consumers of steel would benefit. Sir William saw the opposition coming from the outset. Trying diplomacy first, he proposed that the new plant should be erected co-operatively at a cost of £10 millions by the members of the Iron and Steel Federation most closely connected with the sheet industry, among them Baldwins, and Guest, Keen and Nettlefolds. This proposal was turned down flat, and when Sir William referred to the unemployment which this might cause, one of the steel magnates is reported to have remarked, "You are always talking about unemployment—are you a Socialist?" But Sir William was an individualist, caring as little for Socialists as he did for his brother magnates. He decided that Richard Thomas should do the job alone.

Sir William next chose Redbourne in Lincolnshire as the most economic site for the mill. There was an outcry in South Wales, and both Baldwin and Ramsay MacDonald helped to persuade Sir William to fix the site in Ebbw Vale. Work eventually began in 1937 on a loan of £5½ millions. But finance played into the hands of the obstructionists. Richard Thomas were in a bad financial shape. The loan raised was insufficient. There were delays and the costs mounted up. The City became scared, and there was a slump in the prices of the Company's shares and debentures on the Stock Exchange. In April 1938 the joint stock bank which held the overdraft demanded an examination into the Company's affairs, which was conducted by one James, Chairman of Lancashire Steel. His report declared that not £2½ millions more but £6 millions more would be needed to complete the work. (Happily the work was completed on far less.) The Bank of England was consulted, which was unfortunate, because Sir Andrew Duncan, then Chairman of the Iron and Steel Federation, was a director of the Bank of England with access to Montagu Norman's ear. The result was that £6 millions were advanced on two conditions: first, the appointment of a Control Committee consisting of Montagu Norman, Sir William Firth, the President of the Iron and Steel Federation and E. H. Lever of the Prudential, and, secondly, the appointment to the Richard Thomas board of James of Lancashire Steel, Sir Charles Wright of Baldwins, and Beale of Guest, Keen and Nettlefolds, all competitors of Richard Thomas. It is not surprising

that the new board did not work harmoniously with Sir William Firth. However, by the spring of 1939, Ebbw Vale possessed an enormous mill in which, by one continuous process, the rough ore is turned into finished sheets and tin-plates by 25,000 workers at a reduction in costs of production estimated at 40%. But how near came the cartel to hold up the march of progress!

The war did not, however, stop the quarrels on this Board. In 1940 Sir William Firth had to resign his managing directorship, and in his place was put G. H. Latham of Whitehead Iron and Steel. Meanwhile, the Iron and Steel Controller at the Ministry of Supply was none other than Sir Charles Wright of Baldwins, who was then Chairman of the Iron and Steel Federation. No doubt all these capitalists have convinced themselves that they have acted in the best interests of the nation, but the fact remains that the Iron and Steel Federation have secured a stranglehold of the Ebbw Vale plant of Richard Thomas. When industrial trusts become all-powerful, it is bad luck for independent enterprise or free competition.

The Case of Jarrow-on-Tyne

A story as revealing as Ebbw Vale, but more grim, is that of Jarrow-on-Tyne. In this case the National Shipbuilders Securities Limited (formed in 1930) played the part of the monopoly villain. During the great slump in British shipbuilding, the leading firms in the industry got together and determined to eliminate price-cutting and competition for ever by buying up as many shipyards as possible and putting them out of action permanently. When bought, the yards were dismantled and the sites resold subject to the condition that no shipyard should ever be established on them. The selected yards were bought up at more than scrap prices in order to induce sales, and the finance was provided through a syndicate headed by the Bank of England and the joint stock banks. The loans were repaid through a levy on the prices charged to customers for new vessels. Once again the Bank of England made an incursion into British industry which had restrictionist effects. The result of the National Shipbuilders Securities Limited was to scale down British shipyards to nearly one-third permanently of their old capacity, and virtually to prevent the setting up of any new shipyards for want of suitable sites. Hence the failure

of Great Britain to build new tonnage rapidly enough to deal with the submarine campaign in this war. Let us be grateful that American capitalists have come to our assistance.

It might not have been so bad if the less efficient shipyards had been selected to be destroyed, but the selection was determined not by technical efficiency, but by the financial difficulties into which the owning companies had fallen. Palmers Shipyard on the Tyne was admittedly one of the most efficient in the country, but it was tied to a derelict steel works and unable to meet its obligations to its bankers and creditors in the middle of the slump. It was therefore scrapped, and the one-industry town of Jarrow was murdered with it.

Later on came a Mr. Salt to buy the empty site for the erection of a large new steel works equipped with the most modern plant. This also aroused the fierce opposition of the Iron and Steel Federation, especially its members on the North-east coast, who feared that the new works would undercut their less efficient plants. They could not stop the project openly, but with the aid of the Bank of England and the other banks they could make it very difficult for Salt to raise the money. Further, through the Iron and Steel Federation and its connections with the continental steel cartel, they could make it still more difficult for him to find markets for his products. When they were compelled to pretend that they were not opposing the new works, they proposed terms to the unfortunate Salt which meant that his company would be compelled to pay into a pool, to be divided among its members, a fine which would take away all the advantages of his lower costs and extra efficiency. This killed the new Steel Works and put the nails in the coffin of the town of Jarrow. Another occasion when the power of the great industrial trusts weakened the power of Great Britain in the armaments race against its enemies!

The Lords of the New Feudalism

It is a cruel story, but that is how the new feudalism works. The power of these employers' trusts and cartels was steadily and dangerously increasing before the war, and the great Trade Union leaders were not at all resisting their march towards monopoly. Indeed, the objectives of both employers' and workers' unions were not incompatible. The object of every trust and cartel is to

increase the profits of its members. The object of every union is to increase the wages of its members. Both can be better achieved when the cartel has obtained complete control of its market. And the technique is so simple. The first step is to eliminate competition by forcing independent firms into bankruptcy or into the employers' federation which is dominated by the combine; the next, to shut out foreign imports by tariffs; the third, to raise prices. As soon as prices are raised, the demand comes for higher wages. So the workers' unions and employers' unions are often seen in action hand in hand. Even before the war there was therefore a danger that the two classes of vested interests would get together, work jointly for the realisation of monopoly, and then, with the power and the profits divided between them, exploit the public and make the consumer pay up. It was a serious outlook at that time, and it is even more serious today, now that these oligarchs of industry, these lords of the vested interests, are dominating the Coalition Government under Winston Churchill.

Reader, now that you have had your eyes opened to the potential dangers of the near-monopolies, mark the names of your overlords, the real rulers of Britain today. I give, first, an abbreviated list of the great financial and industrial combinations:

Major Capitalist Combines

Finance—

Joint Stock Banks ("The Big Five"). Rothschilds. Morgan Grenfell. Barings.

Steel and Armaments—

Vickers. United Steel. Stewarts and Lloyds. John Brown. B.S.A. Baldwins. Tube Investments. Richard Thomas.

Electrical—

General Electric. Metropolitan-Vickers.

Engineering—

Rolls Royce. Bristol.

Transport—

Four main lines. Thomas Tilling.

Retail Trade—

Boots, Woolworths, Marks and Spencer.

Cables—

Callenders. British Insulated. Henley's. Enfield.

Building—
Associated Portland Cement. London Brick.

Rayon—
Courtaulds. British Celanese.

Oil—
Anglo-American (Standard). Shell Transport. Anglo-Iranian.

Motors—
Morris. Ford. Dunlop.

Miscellaneous—
Imperial Chemical Industries. British Aluminium. Turner and Newall (asbestos). Amalgamated Metal. Tate and Lyle. British Oxygen. Cables and Wireless. Distillers. Imperial Tobacco. Unilever.

Next, I have before me a list of Trade Associations which deal with trade practices, the fixing of prices and the distribution of markets. It contains 175 names. I am sure that all of them are striving to use their great powers with benevolence and in all fairness, but there is always the danger that some of them will fail. I have only space to give the more important names:—

British Iron and Steel Federation (Steel Cartel, Tube Cartel).
Mining Association of Great Britain.
Railway Companies' Association.
Cement Makers' Federation.
International Bath Association Ltd.
British Metal Window Manufacturers' Association.
Accumulator Makers' Association.
Association of Radio Battery Manufacturers.
British Radio Valve Manufacturers' Association.
Electric Lamp Manufacturers' Association of Great Britain.
British Association of Glass Bottle Manufacturers.
Plate and Sheet Glass Manufacturers' Association.
United Kingdom Lead Manufacturers' Association.
Cold Rolled Brass and Copper Association.
British China Clay Producers' Federation Ltd.
Machine Tool Trades Association.
Society of Motor Manufacturers and Traders.
Cable Makers' Association.
The Salt Manufacturers' Association.

Iodine Preparations Combination.
Brewers' Society.
Millers' Mutual Association.
Tobacco Federation of the British Empire.
Margarine Manufacturers' Association.
Newspapers Proprietors' Association.

Here is an abbreviated list of the major Trade Unions, with the number of members each reported to the last Trades Union Congress:—

MAJOR TRADE UNIONS

	Members in Thousands
Mineworkers' Federation of Great Britain	589
Railwaymen, National Union of[1]	420
Railway Clerks' Association	70
Transport and General Workers' Union	650
Boilermakers' and Shipbuilders' Society and Ship-constructors' and Shipwrights' Association	91
Electrical Trades Union	80
Amalgamated Engineering Union	454
Iron and Steel Trades Confederation	98
Painters, National Society of	43
Building Trade Workers of Great Britain and Ireland, Amalgamated Union of	65
Woodworkers, Amalgamated Society of	152
Typographical Association	46
Printing, Bookbinding, and Paper Workers, National Union of	78
Cotton Operatives (two unions)	71
Weavers' Association, Amalgamated	89
Dyers, Bleachers and Textile Workers, National Union of	79
Tailors and Garment Workers, National Union of	124
Boot and Shoe Operatives, National Union of	94
Distributive and Allied Workers, National Union of	223
Agricultural Workers, National Union of	45
General and Municipal Workers, National Union of	441
Public Employees, National Union of	52

I am not suggesting that all the employers' Federations yet control completely or monopolise their respective trades. There are small firms who refuse to belong to the

[1] Including Locomotive Engineers and Firemen.

Federations which are dominated by the big combines. But the trend is towards Federation control of each industry on the capital side, just as it is towards Union control on the labour side. For example, the Federation of British Industries has just issued a special interim report on post-war reconstruction which asserts: "Future (industrial) organisation should be decided by industrialists, subject to the over-riding principle that it must be in the national interests. Each industry should possess a trade organisation with clearly defined functions to suit its needs and so organised as to be capable of efficient performance". A good deal can be read between these lines, and it is interesting to find that this report was drawn up at the special request of Sir Andrew Duncan when he was President of the Board of Trade.

The great danger before the country is that these vested interests of capital and labour will come together for the joint exploitation of the consumer after the war. Should this happen on the return of peace, we shall be faced with that bastard enormity—the Corporate State—the state in which economic and political sovereignty is wielded by the two exploiting factions. A British Corporate State would be more realistic than that invented by the Italian puppet-Cæsar, but all the more dangerous and deadly on that account. It is an ugly prospect, and if it is realised, we must pray for England! If the public is awakened to the dangers of the new feudalism or the new Corporate State in time, we shall yet be saved. In every class there are men and women who revolt against the exploitation of the community by the vested interests. Above all, there will be the fighting men back from the wars—the conquering heroes—the economically dispossessed. The safety of Great Britain may depend on its fighting heroes once again, but this time at the polling booth.

PART III

THE VESTED INTERESTS AT WAR

CHAPTER FIVE

THE CHAMBERLAIN RÉGIME

(*September* 1939–*May* 1940)

"The vested interests, which have always had the ear of the inner section of the British Cabinet, are extremely busy at the present moment exerting all their influence to advance their respective claims to ensure that on the termination of this war their particular interests are served."—ERNEST BEVIN in a speech to officials of the Transport and General Workers Union in February 1940.

ON THE outbreak of war, Chamberlain did what was to be expected of a business man and a gentleman. He ran true to his principles—the principles of his party—the party of the employers' unions. He invited "big business" into the Government machine to control supplies and direct the national output of munitions. Apparently he never thought of getting "national" men to control the output of "big business". However, his system might not have been so bad if he had asked—on the principle of "set a thief to catch a thief"—a cement baron to control the steel barons, or a steel baron to control the cement barons, or an engineering boss to control the railway bosses, and vice versa. But he made the mistake of inviting the "big business" lords to operate the Government controls of their own businesses!

GOVERNMENT "CONTROLS"—BY BIG BUSINESS

Let us begin with the raw materials of industry. Not only did the Ministry of Supply call in the "big business" executives to act as controllers of the commodities in which they traded, but in some cases it invited the entire office staff of their company or federation to administer the "control". Thus, for example, the staff of the Iron and Steel Control was that of the Iron and Steel Federation, and is still paid, I believe, by that monopoly trust, and not by the Government. The Non-Ferrous Metal Control is

operated by the British Metal Corporation, which receives a fee from the Government for its good services, which is sufficient to maintain a generous dividend to shareholders. The staff of British Aluminium worked the aluminium control, and I was informed by one of the directors that it took quite a time to disentangle that Company's work from the Government control. Small wonder that these controls have refused, according to the Committee on National Expenditure, to allow any State examination of their costings or any checks upon their method of controlling!

The Public Accounts Committee had this acid comment to make on the Iron and Steel Control:

> "This system raises in an acute form the problem of dual allegiance, and every care should be taken to safeguard the public interest. The whole staff [of the Iron and Steel Control] have now had their attention drawn to the fact that they are servants of the State and of the Control, which is an instrument of the Ministry. . . . The Committee in recent years has had occasion more than once to refer to the relations between Government Departments and the Federation, as representing the industry, and in the circumstances your Committee was glad to receive the definite assurance that the Control is exercised by authority of the Minister."

Now look at the names of the Controllers under this régime of the vested interests.[1] At the Ministry of Supply the first Iron and Steel Controller could not be other than the Chairman of the Iron and Steel Federation, then Sir Andrew Duncan. The first Aluminium Controller was a director of the British Aluminium Company. The Paper Controller was the managing director of large paper companies. The first Controller of Cement, under the Ministry of Works and Buildings, was a director of four non-cement companies and chairman of the Cement Makers' Federation. Although he resigned the chairmanship of the Federation on being appointed Government Director of Cement, he continued, according to a statement by the Parliamentary Secretary to the Ministry of Works, to receive remuneration from the cement industry by way of compensation. The Government did not have to pay him

[1] The full list of names is given in Appendix I.

£5,000 a year, but presumably the cement industry made it good.[1]

Returning to the Ministry of Supply, the Chemicals Controller was from the Imperial Chemicals combine, the Plastics Controller was a plastic company director, the Alcohol Controller came from an industrial alcohol company. The Cotton Controller was a director of Lancashire Cotton Corporation, the Wool Controller was Sir Harry Shackleton, a director of important woollen companies in Yorkshire. The first Non-Ferrous Metal Controller was, of course, Oliver Lyttelton, the managing director of British Metal, who not only made a good bargain for his Company in the matter of the "Control" fee, but did a fine deal for the Government in buying up the entire output of the Empire copper and lead-zinc mines.

Later on in the war the Ministry of Supply set up a rubber Control, and of course appointed a rubber man to be Controller. Seeing that the restriction scheme of the rubber producers had made the formation of a reclamation and synthetic rubber industry a matter of urgency for this country, you would have thought that a rubber man was the last person in the world to be chosen for this important Control.

"Somewhat similar arrangements" (to these Controls), reported the Public Accounts Committee on July 30, 1941, "exist in the Ministry of Food, who utilise the services of a number of trade associations . . . as agents in the handling and distribution of foods." The barons of the food trade were, in fact, called in to direct the distribution of foodstuffs. Let me pay tribute that these food magnates organised a unified distribution of foods which works with great efficiency. Many of them at the Ministry of Food have now the status of Civil Servants. They should not be blamed for the wrong principles practised by the Raw Materials Department of the Ministry of Supply.

The Board of Trade, following on the same lines, appointed a fine array of industrialists and "big business" men to its Industrial and Export Council. There were, to begin with, Lord Portal, whose wide range of business interests included films, which the Board of Trade controls; the late D'Arcy Cooper, chairman of Lever Brothers; Beale of Guest, Keen and Nettlefolds; Lord Forres of Balfour-Williamson; Sir Nigel Campbell of the City bank-

[1] The present Cement Controller is now a K.C.

ing firm of Helbert Wagg, a rentier and representative of big finance; Sir Cecil Weir, director of the Union Bank of Scotland, and, finally, Metford Watkins, a managing director of John Lewis. Later on this director of a big multiple store was made Director-General of Civilian Clothing, much to the annoyance of the small drapers. When he resigned in October 1941 for private reasons, he was succeeded by Sir Thomas Barlow, a well-known cotton spinner.

Government Boards—Business Control

The Executive Boards were another disguise for the vested interests in power. It should be said in fairness to the oil magnates that they rejected the façade of a "vested interest" control disguised as a Government Board. The Petroleum Board is an independent, non-Government body. It is composed of the executives of the large petrol combines. The small independents are represented on it, but the real control remains, of course, in the hands of the three major companies—Shell, Anglo-American (Standard Oil) and Anglo-Iranian. The Petroleum Executive appears to be a voluntary organisation for pooling stocks, storage and sales. The profits of the cartel are distributed to the members of the Pool in the ratio of their pre-war participation in the petrol trade. The Petroleum Executive also agrees prices with the Government. At least, it raises prices when it convinces the Government that they should go up, and as Board of Trade officials can have little to say, the Government is bound to be convinced by the Petroleum Board. The Chamberlain régime seems to have completed nicely the cartelisation of the petrol trade.

The Railway Executive was composed of the five railway managers, themselves, under the chairmanship of Sir Ralph Wedgwood, an ex-railway manager.[1] The five were paid by their companies, not by the Government, and as labour was not represented on the board, the workers could not feel that the war had in any way changed the status of their employment. Having appointed this "vested interest" Executive to operate its own properties, the Government proceeded to *negotiate* a financial agreement with the railway companies as if it was a peace-time commercial bargain and time and the taxpayer did not matter.

[1] On Sir Ralph Wedgwood's retirement in 1941 Sir Alan Anderson became chairman and railway controller.

It was not until February 1940 that this agreement was published, revealing that the railway executives had got the better of the Government all along the line. It was, indeed, the most fantastic "vested interest" bargain of the war. Believe it or not, the agreement guaranteed the railways £40 millions a year—that is, more revenue than they had earned in 1938—and allowed them to keep half the pool earnings in excess of £43½ millions until they received a pre-1941 war standard (£56 millions), which had been fixed on a generous capitalisation of railway assets. Moreover, the Government bound itself to raise railway rates and charges to meet every increase in operational costs. This last clause was so one-sided, so dangerously inflationary, that it was invoked only twice—to cover the increase in railway costs up to the end of June 1940. After that the Government did not dare to outrage public opinion again. It tacitly committed itself to subsidising the railways on the quiet. Thus the railways were protected against any of the economic risks of war, were guaranteed more revenue than they obtained in 1938 and were allowed to share with the Government in any excess profits until they received a fancy standard revenue. A revision of this amazing agreement was at last made after two years of war. As from September 1941 the Government has taken over the operation of the railways for a fixed yearly rent of £43 millions.

As a corollary of the railway agreement, motor-transport vehicles were subjected to an immediate and drastic cut in petrol consumption. It might have been deemed equitable if part of the larger revenues accruing to the railways by the diversion of traffic from the roads had been handed over as compensation to road transport. But what the railway bosses intended was that transport during the war should be operated to the advantage of the railways. And what the railway bosses said necessarily went with the Chamberlain régime, for they stood for a block of £1,221 millions of capital.

There was another significant incident in this "big business" control of the people's war. The late Lord Stamp, chairman of the London Midland and Scottish, was appointed chairman of the Departmental Committee on Economic Affairs. He was also invited to attend the Cabinet Economic Committee—with all the influence attaching to a representative of the greatest conglomeration

of private capital in this country, and the prestige of having worsted the Government in the railway financial agreement. Lord Stamp continued to give half or more of his time to the railway executive. This did not mean that the Cabinet Committee on the co-ordination of economic policy suffered. The truth was that there was no economic policy to co-ordinate. If the Government followed any policy at all, it was the policy of operating the war-time controls with the least possible upset to big business.

Dual Allegiance

The power and privileges given to the new Controllers were enormous. In their dual capacity as Civil Servants and business men they were on velvet. They knew the State secrets, which could not fail to add prestige and influence to themselves as industrial magnates. They wielded the great powers of Government over their business rivals, and especially over the smaller fry of employers and traders. They could, by reflection, bring power and influence to the federation or cartel which they represented. They could bring profit or loss to their own companies by making good or bad contracts with themselves. They could prepare the way, on behalf of the State, for the resumption of business after the war on conditions of bigger and better monopoly. I ask you, fair-minded reader, how could the new Controllers at the Ministry of Supply, the Board of Trade and the Ministry of Transport adjust their minds to the new technique of totalitarian war if their eyes were always looking backwards to their old profits or forwards to their competitive position after the war? How could they attune their minds to the unlimited and perhaps extravagant production we required to bring us up to the pace of Germany if they had been trained in the restrictionist school, if they had spent their lives scrapping redundant plant and limiting their output in the interests of monopoly and scarcity? Would they not be mindful of the commercial need to avoid excess production after the war? Having been appointed guardians of their own profit-making trades, were they not psychologically incapable of operating the Government Controls with the ruthlessness required of total war? Chamberlain called this system "collaboration with industry", but everyone knows that when a Government appoints the managing directors to the key positions of State controlling their own

industries, it no longer collaborates—it is dominated by the mind of "big business".

I am not making any charge against the personal honesty of these "dual allegiance" men: it is the wrong principle I attack, the moral indecency of Government which employs a business man to control his own business. If regular Civil Servants had had the contacts with the trades they controlled which these new Civil Servants openly flaunted, they would long ago have been dismissed the Government Service.

"Business as Usual"

Now examine the economic record of the Chamberlain cartel. Sir John Simon was Chancellor of the Exchequer, Leslie Burgin Minister of Supply (since April 1939), Sir Andrew Duncan shortly became President of the Board of Trade (in January 1940) and Ernest Brown was Minister of Labour. Here were the key positions in the economic front. Here were the men who had to harness the national resources of labour and plant to the production of munitions, who had to adapt our system of private capitalist enterprise to the needs of total war. They were up against diabolically clever and tried men in Germany who had long mobilised to the last man, the last tool and the last square foot of factory space. To beat them they had not only to copy the German economic plan, but to better it and to produce the machines of war at an even greater speed. We had, indeed, to shift our human and material resources over-night, as it were, from producing the means of civilised life to producing the means of destruction. That was the order of the day on the economic front. The nation waited for it to be given—and waited in vain.

It is hard to believe, but it is true, that apart from the raw material controls, which were war-time routine, apart from the Government ordnance factories, which were, of course, immediately expanded, the war economy was left entirely to private enterprise. The Ministry of Supply was set up to co-ordinate the munition orders and to parcel them among the prime contractors on its lists. They in turn were left free to farm out sub-contracts as they thought best and compete in the labour market with one another. Apart from these munition contracts, private enterprise was allowed to carry on and make the goods for the civilian trade on which it could secure the highest pro-

fits—just as it did in peace-time. Do you find it extraordinary that the vested interests in Government authority should have left the whole field of private enterprise unrestricted in the domestic civilian market? Not when you think of the profit scope in that direction. The annual expenditure on food, clothing and boots, drink, tobacco and entertainment, furniture and hardware, and other retail goods was nearly £3,000 millions. There were over 750,000 shops clamouring for goods. Food was first of all rationed in January 1940, but the non-food retail trade had a turnover of £1,200 millions a year, and employed 800,000 people in over 300,000 shops. So the profiteers saw the chance of their lives: they ordered civilian goods of all sorts from the manufacturers because they were convinced that prices were going to rise and that the public would make a rush for commodities as a hedge against inflation. The Chamberlain régime did nothing to stop this racket; they did nothing to cut down civilian expenditures (apart from the rationing of food and petrol) or to force labour from civilian factories into munitions before April 1940!

The need of the hour was to turn this commercially-minded nation from the pursuit of profit to the pursuit of war without profit. But Simon seemed to think that all he had to do was to *limit* profits. He declared, with full Parliamentary approval, that he would take the profit out of war by imposing an Excess Profits Tax (60% at first), by prohibiting an increase in dividends and by limiting Government contractors to a percentage on cost (from 10% down to 5% for repetition work). This turned out to be the most wasteful and inefficient system he could have devised. With a fixed percentage on cost, employers ceased to be interested in reducing costs or in improving efficiency or in speeding up output. Indeed, the more wages went up, the greater the profit to the employer in terms of percentage on cost. So both sides—capital and labour—were equally pleased—and equally demoralised. By making it easy for wages to follow prices on the upward trend, the "cost plus" system was, of course, inflationary.

And this heavy Excess Profits Tax—increased from 60% to 100% later on—turned out to be a fine piece of hypocrisy which played into the hands of the big vested interests which supported the Chamberlain régime. As everyone knows, Excess Profits Tax falls harshly on young or enter-

prising companies in the development or recovery stage because they have no standard profits to serve as a life-line. On the other hand, the large wealthy corporations long and soundly established in the consumption trades, like the tobacco and beer companies, with a good pre-war profits standard, have little or no Excess Profits Tax to pay. On the principle of the richer you were before the war the less you pay today, they have escaped altogether their proper contribution to the burdensome finance of the war. All they have to pay is the National Defence Contribution, an inadequate tax at only 1*s.* in the £ levied on all corporation profits. The Government has consistently refused to increase this tax—so sacrosanct are beer and tobacco profits. Simon's Excess Profits Tax was the guarantee of the "status quo", the hall mark of vested interests finance.

Production Record

What of the achievements of Ernest Brown at the Ministry of Labour? This was the man who, in order to catch up with Germany, had to divert labour to munitions more quickly than Goering had done. His record is best recorded in figures—the figures of unemployment. For the first three months the numbers of unemployed went up:

	Unemployed. Ministry of Labour Figures.
September 1939	1,331,000
December 1939	1,519,000
May 1940	881,000

In these nine months we had absorbed 450,000 into employment. But the Army had taken many more than that out of employment.

Do not blame poor Ernest Brown too much. Leslie Burgin at the Ministry of Supply was not ready to absorb in the munitions works any considerable volume of men from the civilian trades. It did not apparently occur to the Government to restrict consumption drastically at the outset and give military training to the men thrown out of work. So the first mild cuts in consumption exhausted themselves in an under-employment of labour and plant in the non-munitions factories. The bottleneck was the national production shop. It was not even built and equipped for war work—much less organised for rhythmical production. The precious months of quiescence on the

Western Front were allowed to slip by with our great manufacturing resources unharnessed to war.

Finally, look at the record of Simon as Chancellor. So ill-tuned was he for his war-time job that he still seemed to look upon the Service Departments with the jealous eye of a peace-time Chancellor. How little (not how much) could we spend, seemed to be his motto for total war. He revealed his utter incapacity for war spending in his Budget of April 1940. In the first seven months of the war our war expenditure had been at the rate of £4¼ millions a day. Over the next six months Sir John expected to raise it to £5¼ millions a day, and in the following six months to £5½ millions a day! Sir John was converting, in fact, not much more than one-third of the national income to war expenditure.[1] Germany was then converting about one-half: she was spending at least £9 millions a day. It is a sorry record, but Sir John was only running true to the form of his party and his system. He did not want to hurt private enterprise too badly. When the vested interests run the production side of war we must expect the maximum of output consistent with the minimum of harm and hurt to private capital.

In their honour let it be said that a few politicians expressed their horror and disgust at the inadequacy of this "private capital" war effort. Leo Amery, for example, after seeing the inadequate Budget figures, demanded a small War Cabinet with an Economic Minister in supreme control of the economic front. But Chamberlain would not change the system. He had dressed up the pre-war trusts or cartels in the clothes of the Government controllers: he had asked "big business" to direct the war economy; and he expected to get good business results on the cost plus percentage basis. That was his "vested interest" system.

On May 10th, 1940, Chamberlain fell—not because he would not change the system, but because he admitted the failure of a Norway expedition for which his First Lord of the Admiralty (Winston Churchill), his Secretary of War and his Minister of Supply were primarily responsible. Chamberlain could withdraw from Norway—which was the most sensible act of his war career—but he could not withdraw from the system of government by vested interests.

[1] Today we are converting nearly 60%.

CHAPTER SIX

THE REIGN OF CHURCHILL

(*May* 1940–

"Somebody, somewhere, is still frustrating the fulfilment of an intense determination."—*The Times*, November 14th, 1941.

How wonderful, how unique, was the opportunity for making sweeping changes in our war economy when Winston Churchill, amid universal popular acclaim, took over the premiership and invited the Labour Party into his Government! The failure to seize it was one of the most poignant tragedies of this war.

The people were profoundly disturbed. Defeats on the continental battlefields could be stomached; bombs from the night skies could be suffered; but this failure to get into the full stride of war production was shocking and alarming. The public were ready not only for a change of Premier, but for a change of system. Here was the chance to crystallise the popular enthusiasm, to cement the popular will for victory, by bringing capital and labour under single national control for the purposes of total war. Here was the moment to scrap the old system of administration through the vested interests and to set up the new system of "common wealth"—the common pool of capital and labour with no vested rights on either side to obstruct the national output of munitions. Here, at last, was a call to national men with a public spirit to run a national production job, to conscript capital and labour on equitable terms for joint service to the State.

The New Coalition

Alas! the new Premier failed to answer it. He let the opportunity slip; and it will never return unless, with some new accumulation of disasters (which God forbid!), a new, non-party man is called upon to take his place in some dire emergency. In stepping into Chamberlain's shoes, he stepped into the system of rule by vested interests. He made only one important change. Instead of government by one estate he introduced government by two estates. Labour was invited to share the management with capital. The basis of the Coalition was a mutual understanding between Conservative headquarters, representing "big business", and Labour headquarters, representing the

Trade Unions, that, provided Trade Union officials were allowed to negotiate rises in wages to meet war-time rises in the cost of living (and so maintain their jobs and usefulness to their men), there would be no major attack upon the capitalist system from the Labour Party. That, as I see it, is the implication of the political truce which now reigns so beatifically in the House of Commons in the name of national unity for war.

There are two sorts of coalition. There is the coalition of patriots who answer the public call in an hour of crisis, who form a Government above all party politics and above all vested interests, who recognise that the old party cries do not represent the spirit of the people and that vested interests must give way to the supreme national interest—the safety of the people. This, alas, was not the model of the Conservative–Labour Coalition under Winston Churchill.

Then there is the coalition of politicians, an inter-party arrangement, based on the understanding that neither party gives up any of its policies or aims, but that for the duration of the crisis both agree to sink their differences—and resume them again after the war. Under this form of Coalition any departure from either party's platform is regarded as a temporary concession only, and is cautiously, if not grudgingly, allowed.

This was the Churchill–Bevin Coalition, the political counterpart of the industrial coalition, the joint Committee which represents the Trade Union Congress, the Federation of British Industries and the Employers' National Conferences. It was the worst sort of Coalition for waging a ruthless total war, but perhaps the best which a system of rule by vested interests could produce. It was fortunate for the Coalition that it had in Winston Churchill a great national figure, an orator who could revive national hope, steel individual courage and breathe the popular will to victory. But there is something dangerous in eloquence which drugs the national mind and makes it satisfied with less than the maximum effort from capital and labour.

The Division of Jobs

See how the key jobs in this Coalition were farmed out to the party leaders of the vested interests. On behalf of capital, Sir Kingsley Wood, who had impressed nobody

at the Air Ministry, was shuffled to the front position of Chancellor of the Exchequer. Lord Beaverbrook was called to the newly-created Ministry of Aircraft Production, and later Sir Andrew Duncan, ex-chairman of the Iron and Steel Federation, was moved from the Board of Trade to the Ministry of Supply. This was significant, for Herbert Morrison had first been given the job of running "big business" at the Ministry of Supply. Perhaps the vested interests of capital objected to a Labour man in this "key" capital position. Perhaps Herbert Morrison had not been equal to the job. At any rate, he was assigned in October 1940 to the post of Home Secretary and Minister of Home Security, where he could be less objectionable to "big business" and as unrelenting as possible to the Fascists and other aliens who had been interned by Sir John Anderson. Certainly, the absolute powers bestowed on the Home Secretary for the internment of suspected men and women without a trial under Regulation 18B have been exercised with all the resoluteness of a dictator by this ex-pacifist politician. His appointment was a clever stroke of the Premier. When the shuffle had been completed, a "big business" man, Oliver Lyttelton, ex-managing director of British Metal, and ex-controller of base metals, a capitalist of the first order and of great ability, was summoned to the Board of Trade.

On behalf of the vested interests of Labour, Ernest Bevin was given the Ministry of Labour. Clem Attlee became Lord Privy Seal, and Arthur Greenwood was promoted, for his good speeches, to be chairman of the Production Council and the Economic Policy Committee of the Cabinet. Notice that the power, as distinct from the shadow, was given to the Trade Union boss. Clever Ernest Bevin, who never minces words, let the cat out of the bag before he joined the Coalition. He expected inflation —he seemed rather to welcome it as the only way out— and he said bluntly that wages must keep on going up to meet the rise in prices. They went up, and they are still going up. In other words, the great Trade Union leader was installed at the Ministry of Labour to guarantee that Labour got its fair share of the spoils and was not coerced or bullied too much by the employers. But the capitalists still held their jobs at the Ministry of Supply, the Ministry of Aircraft Production, the Board of Trade

and the Ministry of Food. Vested capital still operated the Government controls of raw materials and of business production. After the Herbert Morrison episode, the Coalition settled down quite comfortably to this practical division of interests—labour looking after labour and capital looking after capital. The bargain was well kept.

Powers without Purpose

In that grave hour of crisis the country would have accepted any sacrifice the Government demanded. Indeed, the Emergency Powers (Defence) Act 1940 filled the nation with hope that both capital and labour would be equally conscripted in the common cause. It conferred powers on the Government. "for requiring persons *to place themselves, their services and their property* at the disposal of His Majesty as appears to him to be necessary or expedient for securing the public safety, the defence of the realm, the maintenance of public order or the efficient prosecution of any war . . . or for maintaining supplies or services essential to the life of the community". This was on May 25th, 1940. Did it not imply complete conscription of labour and capital, a common pool of the nation's resources? The individual worker, if not the Trade Union official, was ready and willing to be conscripted. But what happened? The Government went on calling up men for an army of three or four million, which it had fixed without apparent regard to the capacity of the remaining workers to produce its equipment, but it made no move towards the national call-up of capital—except to appeal to private investors to lend their savings to the Treasury—or towards the compulsory transfer of labour from non-essential works to war factories. And, of course, it never considered the stabilisation of wage rates and salaries—without which the cost of living itself could not be stabilised or inflation prevented. In fact, none of the *essentials* was done because it would have offended too many of the vested interests.

But such was the magic of the Churchill name that the public hailed this Coalition of the parties with acclamation. "Cato", the author of "Guilty Men", the pamphleteer who did a great service in opening the eyes of the public to the scandals of our political past, wrote with enthusiasm —this was in July 1940—the following postscript to his book:

"In Mr. Churchill as Premier, and in his three service supply chiefs, we have an assurance that all that is within the range of human achievement will be done to make this island a fortress. . . . Already and at long last the tanks, the arms of every kind are piling up."

Counting chickens before they are hatched is bad enough, but counting tanks, dear Cato!

A "Compromise" Production System

As compared with those of the Chamberlain régime the achievements of this Coalition were colossal. But any comparison with zero is odious. The new Ministry of Aircraft Production under Lord Beaverbrook speeded up the production of aircraft to the Premier's entire satisfaction, but no one ever knew to what extent the output of aircraft went up at the expense of the output of tanks. It is common talk that Lord Beaverbrook is ruthless and unorthodox in his methods. Why he has been described as a human dynamo I have never understood, seeing that dynamos run smoothly. To create a new and independent Ministry of Aircraft Production may have been the best way of using his lordship's peculiarly explosive qualities, but it added another to the list of Service Departments responsible for the production of its own munitions. We know how careless of other needs a Service Department can be when it wants to satisfy its own immediate programme. The Ministry of Aircraft Production might keep its hand on plant of which the Ministry of Supply was desperately in need, although it might not be working the machines at full capacity. Lord Beaverbrook's answer would have been that aircraft must come first, and that he was taking no risks. As there was no super-minister at that time to award priorities, the human dynamo would have had his way. But Lord Beaverbrook was not the only offender. The Admiralty might reserve for its use as a storehouse a modern factory urgently needed for production of an anti-aircraft device. There was no super-authority to decide that question of priority.

The Premier relied on settling these clashes between the munition departments by setting up the Production Council under Arthur Greenwood, and a Co-ordinating Committee which later on became the Production Exe-

of the Production Executive, which, as we have seen, had been a compromise. Lord Beaverbrook was lauded to the skies. At last we had the right man in the right job. But a month later Lord Beaverbrook was suddenly dropped. Oliver Lyttelton was brought back from the Middle East to take his place—to be the super-Minister to award priorities and decide programmes. The new Ministry of Production was a big advance towards a rational planning control, but, as every one in Whitehall knew, the compromise and patchwork still prevailed. The new Minister was responsible for raw materials, yet the Controllers still remained under the Ministry of Supply. He had to settle the allocation of labour within the field of war production, yet Ernest Bevin was solely responsible for the supply. And the Ministry of Supply went merrily on as before with—would you believe it?—the steel trust chairman, Sir Andrew Duncan, back again as Minister in charge.

So the same fundamental defects of Coalition government remained after all these attempts at reform. The business men in the Ministry of Supply still went on managing the "controls" of their own businesses. The Ministerial authority over the capitalists was still "big capital". And the labour boss in charge of the Ministry of Labour still retained nearly all his powers in regard to labour. Would you expect otherwise from a Coalition?

There was only one exception to this "vested interest" rule. Labour Party Hugh Dalton, with a fine record of hustling the Civil Servants, was moved in March 1942 from the Ministry of Economic Warfare to the Presidency of the Board of Trade. Great hopes were set upon him. But Coalition politicians must trim their sails to the winds which blow from Coalition headquarters.

Production Records—By Comparison

Far be it from me to decry the production advances of the Churchill–Labour Coalition. Comparatively, output did expand enormously. Comparatively, expenditure did rise sharply. You will remember that Simon thought it wonderful to raise the war appropriations to £5½ millions a day. In 1940 they were raised to £7 millions a day, and in the half-year to October 1941 to £10·3 millions a day. By the end of 1941 they had reached £12 millions a day, and by the end of March 1942 £12½ millions a day (£4,562 millions a year), or about 60%

of the national income. But this comparison, as I have said, is pretty odious. One might as well compare the number of guns on the South coast with the number of bows and arrows King Harold mustered at the Battle of Hastings—that is, if you wished to flatter King Harold. I do not suggest that military disasters abroad were necessarily due to Government shortcomings at home—for allowance must be made for blunders in strategy and the mal-organisation of the High Command—but we know now to our cost—after successive withdrawals of our ill-equipped troops from Norway, France, Greece, Crete, Malaya, Singapore and Burma—that our output of munitions did not expand nearly fast enough under the reign of Churchill.

The failure lay in the half-hearted, desultory attempt to turn our national economy over to a total war system.

Total War or "Total Shopping"

The Chamberlain régime, I have said, did not begin to tighten up the restrictions of the home trade before April 1940. When the Coalition came into power the total number of people employed in the retail and distributive trades was no less than two millions, roughly two-thirds men and one-third women. Here was an appalling waste of labour and materials, a great dam of civilian business which was holding back the speed-up of munitions. Yet, apart from food and petrol rationing, the Chamberlain Government had taken no steps at all to restrict civilian buying before April 1940, when the Cotton, Rayon and Linen Order was introduced. Even then the restriction laid on these textile manufacturers and wholesalers was unimportant, for it was less than a 25% cut.

In June 1940 came the Miscellaneous Order restricting twice as large an amount of consumer goods,[1] but even

[1] *The Miscellaneous Order* covered corsets, etc., gloves, hose and half-hose (silk stockings since banned entirely), knitted wear, laçe, fur, mattresses, pillows, quilts, etc., carpets, linoleum, etc., pottery and glass (excluding bricks, tiles and sanitary earthenware), office metal furniture, metal fittings, cutlery and domestic hollow-ware (aluminium goods banned altogether), leather trunks, bags, wallets, etc., willow or cane furniture, cameras and photographic materials, musical instruments, sports goods, toys, fancy goods, jewellery, silver, etc., perfumery, cosmetics and toilet preparations (excluding soap, shaving-soap, shaving-cream, tooth-paste and tooth-powder), domestic machinery, lawn-mowers, etc.

then the cuts enforced were only down to 66⅔% of the pre-war trade. Certainly the restriction was tightened up at each six-monthly period, but the pace was painfully slow. It is extraordinary that silk, which was urgently wanted for parachutes to save the lives of our airmen, was not banned in the hosiery trades before December 1st, 1940, and it was not until June 1st, 1941, that the quotas had been cut down to 20% or 25% for most household goods and clothing.

Consumer rationing for clothes was introduced on June 1st, 1941, and, incredible as it may seem, the allotment of sixty-six coupons a year to each citizen called for slightly more raw materials than were actually being used for civilian clothes at that time. This was stated by Oliver Lyttelton at the Press Conference at which he announced the scheme. And, of course, the coupon concessions which the Board of Trade subsequently made to special users or complainants increased the draught on our vital raw materials. And why did not the Government, when it brought in clothes rationing, prohibit altogether the trade in luxury fashion clothes? You can still buy a 50-guinea dress, wasteful in materials and labour, for the same number of coupons as a cheap one. Even when two-thirds of the clothing factories were diverted to economical "utility" clothes, the remainder were free to be as luxurious as they like.

The quota percentages overstated the amount of restriction to which the civilian trades were subjected, for certain customers—Local Authorities, hospitals, and the Women's Voluntary Services—were freed altogether from the quota laws. Moreover, many select articles were removed from quota because of some special claim or concession. As a further sop to retail traders, the Board of Trade allowed goods destroyed in air raids to be replaced free of restriction, regardless of whether they were essential goods or not. Yet through dilatoriness or muddle it allowed some millions of the banned silk stockings to rot in Leicester warehouses.

The Start of Racketeering

This snail-like progress towards the realisation of a total, war economy can only be explained by one of two defects—either that the Ministers and their Civil Servants were half asleep or half incompetent, or that the hands

of both were tied by the principle of the sanctity of trade accorded by a Government of vested interests—the vicious principle that private enterprise has a right to make a profit in war-time regardless of the safety of the people or the needs of a war economy. Let us give them the benefit of the doubt and award them the second disgrace. Because the Coalition did not dare to control the business of the country, lock, stock and barrel, and apply it rationally to total war—restricting the civilian trade only to essentials and abolishing altogether redundant intermediary business—it allowed superfluous wholesalers to carry on and supply retail shops with their unofficial "quotas" even if their customers had largely been evacuated. These "pockets" of surplus goods were the start of the black markets.

A "quota" is in itself the mark of the vested interest—a right to a slice of trade regardless of the needs of total war. Because the Board of Trade handed out quotas to manufacturers and wholesalers, it opened up a new racket—an open market in quota rights. New profiteers—and many with alien names—began to buy up quota rights and to resell them at fat commissions, rising to as much as 20% or even 25%, to other traders. Cases occurred where goods changed hands four or five times, with a 10% to 20% commission added to the price on each occasion, while all the time they lay in warehouses without being touched—except occasionally by German bombs.

Criminal racketeers scoffed at Board of Trade orders, got themselves listed as wholesalers on the Board's register on the pretext of doing a pre-war trade which the Board's officers had at first no time to investigate, and then bought up goods freely from manufacturers for resale illicitly to the big shops.[1] It was estimated that in the last quarter of 1940 these saboteurs sold £4 millions worth of illicit "quota" goods to the chain stores. By no means all these criminals were brought to justice.[2]

[1] Manufacturers and wholesalers, being "registered persons", could trade freely with each other. It was only when they sold goods to the retail trade that they came under the quota restrictions. If they had no quota for the home trade, or had exhausted it, it would be illegal for them to sell to the shops, but the shopkeepers could not know whether they were acting illegally or not.

[2] In March 1941 the directors of a company called Hispano-Britannic Limited, registered with the Board of Trade as a wholesale house for an export trade to Spain which it never conducted,

Because of the tedious approach to a total war economy labour was not brought into the munition factories at the pace demanded by the crisis. According to figures published by the Board of Trade, the reduction of employees in the restricted industries between June 1940 and April 1941 was only 95,000, and the only excuse for this miserable result was that some of the men still left were working on Government orders. Not until April 1941 did the Board of Trade under Oliver Lyttelton begin to "concentrate" the restricted industries. Obviously it was undesirable that the smaller turnover at the civilian factories should be met by the spread-over system. As a business man, Lyttelton properly decided that the restricted production must be concentrated in a small number of nucleus factories working full time instead of being spread over a large number working part time. The big firms, who were the expectant nuclei, were ready enough to agree to the concentration of the small firms, for that was an advance along the road to monopoly. By December 1941 this concentration drive had released 145,000 men and women for munitions and 27,000,000 square feet [1] of factory space for war production or storage. But it was a wasteful as well as tedious process. In the cotton concentration 10,000 mill-girls disappeared —back into domestic life—and in January 1942 Ernest Bevin was desperately trying to recapture them for work again in the mills because cotton had been over-concentrated!

It was indicative of the Coalition's incapacity to introduce a total war economy that the concentration scheme stopped short of the retail trade—the only remaining reservoir of labour which could be tapped for munitions.

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was convicted and fined £1189 at Bow Street for supplying multiple shops with over £166,000 worth of "quota" goods in two months, although, not having traded in the domestic market before the war, it had no quota at all. This Company was again fined in February 1942 (this time £27,815) for a similar offence. Its Chairman was a Peer of the Realm, a Deputy Lieutenant and a Justice of the Peace.

[1] The official Board of Trade figure was 45,000,000 square feet, but this gave an entirely wrong impression of the actual footage available. 26,000,000 square feet of the 45,000,000 were accounted for by the cotton industry, and in cotton-spinning factories only a quarter or a third of the space can be used for storage.

The shops were a particularly thorny subject for Ministers of the Coalition. All shopkeepers complained bitterly of the orders of the Board of Trade—the "Board of Strangle Trade", it was called, although it failed to strangle trade fast enough—and the small shopkeepers were especially indignant because the quota system played into the hands of the big multiple stores. If manufacturers and wholesalers were cut down to a quarter or a third of their pre-war trade they would naturally try to save their overhead expenses by "concentrating" their retail customers, and the customers they would elect to serve would naturally be the chain stores and the departmental shops which paid them cash down on or before delivery, and also saved their transport costs. In the constituencies the small shopkeepers were particularly vocal, and every Member of Parliament was sensitive to their cries. The Conservatives regarded them as the pillar and prop of the capitalist system, and the Labour members were tender to the class to which conservative workers climb who have saved enough money to keep shop in their old age.

The Coalition knew that it had no adequate reply to shop grievances, for it had no adequate compensation scheme, no national distribution of the economic losses of war. So it hedged. Oliver Lyttelton, usually so fearless in administration, appointed a Committee to advise the Board of Trade on the problems of the shops. This expert and representative body was ready to dress the windows of the Board's Millbank palace in May 1941, but it was not until November that it issued any interim report. And what do you think it advised? It did not deal with the urgent question of the concentration of shops, which alone could release large numbers of men and women for vital work in munitions. It did not attempt to end the scandalous waste of the several dairy firms, fishmongers, butchers and bakers who send half a dozen roundsmen through the same streets when only two or three would suffice. No, its urgent interim report—issued six months after its formation—merely recommended that the opening of new shops (and the extension of existing ones into new lines of business) should in war-time be prohibited. Vested interests again! The Board of Trade promptly complied with an Order to meet their demand. In January 1942 a second interim report was issued by this Committee, full of warnings of the terrible prospect before

the retail trade, but making no recommendations whatever pending a further enquiry!

Encouraged, no doubt, by the "keep-out" report of the Retail Trade Committee, seven associations of the food catering industry waited on Lord Woolton on January 12th, 1942, to demand that no new "British restaurants" should be opened without consultation with the trade. Lord Woolton gave them that assurance, and added that these "British restaurants" were for the duration of the war only. The crying need of men and women war workers is, as everyone knows, for more and more "British restaurants". But our vested interests must be served before the workers.

This pitiable attempt to deal with a vital piece of trade rationalisation suggests that we shall not get far along the road to a total war economy while the vested interests are in power.

Coalition Gains for Labour

If the Coalition did not give the country what it wanted for total war, it certainly gave the vested interests what they had come together to gain. It gave them extra power and extra profit.

Examine the gain for labour. The Trade Union Congress had rejected from the outset the principle that national wage rates should be fixed for each industry and pegged together with the cost of living. It had insisted that there must be a free labour market, and that capitalists should bid for labour by offering higher wages in competition with one another. Builders and contractors forced up the wages of unskilled labour until often even skilled trade unionists began to squeal. If anyone should ask the Minister of Labour whether it was right for contractors and sub-contractors to be scrambling for workmen in the same areas for the servicing of similar contracts, he would surely reply that this was only part of a bargain —the price for which Labour joined the Churchill Coalition. Labour was getting its extra slice of the national cake.

Of course, the rise in wages has been very properly conducted. The Government planted the responsibility for wage adjustments on the existing industrial joint machinery—subject only to the over-riding Government orders enforcing arbitration and prohibiting strikes

and lock-outs. These war-time wage negotiations enabled the Trade Union officials to enhance their prestige and influence among the working rank and file. That was just what they wanted. And what success they had! The Ministry of Labour's investigation into workers' earnings during one week in July 1941 revealed an increase for the average worker since October 1938 of 42·3%, against a then rise of 29% in the official cost-of-living index. This referred, of course, to total weekly earnings inclusive of overtime pay and bonuses.

When the Treasury, feeling that wage increases had gone far enough, essayed a little sweet reasonableness in its White Paper on Price Stabilisation (September 1941), Sir Walter Citrine and the Trade Union Congress became very angry. No doubt they were afraid that the concluding sentence of the Treasury Paper was an incitement to employers to refuse further wage advances and an instruction to the arbitration tribunals to support their refusal. This was the final sentence which upset the Trade Union Congress:

> "It will, therefore, be necessary to bear in mind, particularly when dealing with general wage applications, that the policy of price stabilisation will be found impossible and increases of wage rates will defeat their own object unless such increases are regulated in a manner which makes it possible to keep prices and inflationary tendencies under control."

To that harmless sentence the Trade Union Congress made their historic reply: "Any attempt to control movements for increases in wages is impracticable and undesirable."

Sir Walter Citrine went farther. In a speech at this Congress on "Wages Policy in War-time" he ignored total weekly earnings, and declared that wage *rates* had only been advanced during the war by 20%. So he argued that if wages were stabilised now, it would mean a depressed standard of living for the workers for the rest of the war. A most disingenuous, if not dishonest, argument to disregard total weekly earnings, which had risen by 42%. But what Sir Walter was concerned about was that labour should be put into the position *during* the war to increase its share of the national wealth *after* the war. In his speech to the Trade Union Congress in September 1941 he used

these significant words: "The Trade Union Congress was exploring any means whereby, while not only preserving the relative share in the national pool of wealth, their share and their claim to it would be *increased* when the opportunity came in the post-war period." He revealed that he was playing, like the vested interests of capital, for position after the war. That is why a rise in *basic wage rates* is so much more important for the Trade Union leaders than a rise in weekly earnings through over-time and bonuses.

Coalition Gains for Capital

Now examine the gains for capital from the war economy of the Coalition.

Under the régime of Ministry of Supply "Controllers" and Board of Trade quotas and concentrations, the big combines and the employers' associations extended their power and influence and made a big advance towards the realisation of their post-war dream—monopoly. When, as was usually the case, the controllers were directors of the great industrial combines and leaders in their trade federation, the Government prestige and authority attaching to their office could not fail but to enhance the prestige and authority of themselves as lords of the new industrial feudalism. The concentrations of the Board of Trade gave the finishing touches to their rule.

At the outset of the concentration scheme the combines demanded that the Board of Trade should not discuss schemes with anyone but the official trade association or federation. Although this point was not conceded (the Board insisting that small firms had a right to concentrate themselves), in practice the Government Departments had to come to the Employers' Federations on all trade questions, and in practice the small firms were driven into the orbit of the large—or into the association of employers dominated by the combines. After all, the nucleus firms which took over the production of the closed-down were invariably the big firms or combines doing an export as well as a domestic trade. The privileges accorded to the nucleus firms were immense—a first call on raw materials, reservations of their labour, and protection against requisitioning of their plant and factories. Not only did the big firms secure these advantages over their small competitors, but the trade association was actually used as an instrument in those concentration schemes which involved

the payment of compensation into a central fund to be distributed among the closed-down.[1] When this Central Fund was set up, it was usually administered through the office of the employers' association.

There is no question but that these schemes of concentration for war purposes will be used and carried farther after the war as an organisation for monopoly purposes. Indeed, some of the trade associations have already asked for a first option on the reserve stocks, built up during the war, either at current market prices or at the reserve stock price. In one case the Ministry of Supply was even asked to authorise an increase in current prices to allow for a sinking fund to be created for the purchase of any surplus reserve stock by the members of the association at the end of the war. In other words, the employers had the impudence to demand that the taxpayer should finance a fund to guarantee the post-war security of their cartel. Oliver Lyttelton, trained in the "big-business" school, could not have been unaware of the monopolistic trend of his concentration scheme. He represented a base-metal combine before he joined the Government service, and no doubt he was only talking the language he knew. Indeed, at the initial Press Conference when he outlined his proposals, he even suggested that the concentrated firms would be entitled to Government protection after the war, in view of the large surplus stocks which would overhang their markets. He thought that it might be possible to have a system of licensing for new entrants into the concentrated industries—in other words, the "closed shop" for capital as well as for labour—so that speculative syndicates should not buy up surplus stocks, and flood the markets. Later on, in the House of Commons, he declared that "we should not stifle genuine enterprise", but he added significantly: "Mushroom concerns rob the investor, spoil the industry for the other people in it and then go out of business when the damage has been done." Lyttelton, as the *Economist* was not slow to remind him, was merely talking monopoly politics, which the trusts and employer associations were no doubt quick to observe for future use.

[1] In some cases the nucleus firm undertook to manufacture at cos the product of the closed-down firm and hand over the products to the wholesale selling organisation of the closed-down firm. This involved no compensation from a central fund.

Frank Owen, the editor of the *Evening Standard*, was not far from the truth when he commented on the Lyttelton scheme of concentration: "Capital and labour are taking up new positions in combined consolidation; in fact we are on the verge of a vast experiment in syndicalism." But what do you expect if "big business" and the Trade Union leaders are allowed to control your war economy? When the vested interests make war, they naturally organise a Corporate State for the peace.

PART IV
INDICTMENT OF THE SYSTEM

CHAPTER SEVEN
CONFUSION AND BAD WILL

"To work solely for the benefit of the country is doubtless a fine patriotic ideal, but once the standard profit has been reached . . there cannot be the same incentive to production during the rest of the year, when all surplus earnings are taken by the Government"— SIR GEOFFREY CLARKE, Managing Director of the Telegraph Construction and Maintenance Company, in a letter to the *Financial News*, October 1st, 1941.

UNLIKE HITLER, whose patience, as we know, is very quickly exhausted, our island race bears its strains and stresses so blithely that it is generally unwise to talk of a breaking point. And I am not looking for a breakdown in our war economy. I do not imagine that the system will break down through some operational inefficiency. There are messes and mistakes even in perfect organisations. The amount of incompetence in our present imperfect organisation is probably not out of proportion to its size. But I question the tolerance of the good-humoured British public. Ideas are explosive things, and it does not need a specialist in Mass Observation to detect the rumblings of a volcano in the public mind. We have been promised so many things so many times by the Coalition Government that we are getting soured by the absence of production results. We have been assured so often that "Churchill's in Heaven: all's right with the domestic world", that we are beginning to doubt whether Churchill will ever come down to earth and give us the war economy we want.

Let no one mistake the mood of the nation. It is utterly resolved upon victory; it is determined to achieve its maximum output of munitions; it is clamouring for total war. Is it going to be thwarted much longer by an inadequate, inequitable and illegitimate war economy? This uneasy Coalition of the vested interests cannot go on indefinitely "frustrating the fulfilment of an intense determination".

In this and the following chapter I will therefore attempt to sum up the case against the Coalition system of waging total war. I accuse it of creating—

CONFUSION AND BAD WILL
INFLATION AND BLACK MARKETS.

I am convinced, having seen the machine at work, that it is incapable of waging *our* total war. However much the Government may tinker with the administrative controls, indeed, even if it devises a perfect system of co-ordination and direction from the top, it will never cure the fundamental defects underneath. The underlying basis of private ownership and profit-making will always thwart the proper execution of a national war programme and the thorough rationalisation of a total war economy. In other words, we cannot design total war with a system designed for private profit-making and the sanctity of private property.

The New Feudalism in Munitions

In theory, if the ordering of the production programmes is properly planned at the top—on a national basis—the allocation of the actual orders should be decentralised through the Regional Boards, and for this purpose the manufacturing resources of each Region, comprising big and little firms, should be grouped together as one unit. I have not found any industrialist who did not agree with this statement as an ideal. But under the present system the ideal is utterly impossible of realisation.

To begin with, all important contracts are placed centrally, and not regionally—because of the powers and privileges of the industrial monopolists. The Ministry of Supply has 12,000 main contractors, and the more important among them—the big armament and industrial combines—have personal access to the contract-givers at the Ministry's headquarters. In the same way the Ministry of Aircraft Production deals mainly with the nationally organised firms as its prime contractors, leaving them, as does the Ministry of Supply, to make their own arrangements for sub-contracting.

These great industrial combines know no local frontiers and acknowledge no regional organisation. They have their plants widely distributed throughout the country. When they acquire main contracts they may execute them

by making components at, say, a factory in the Midlands and sending them to be assembled at another factory in the North, or they may let out certain parts of the job to sub-contractors regardless of their geographical position. Transport economy means nothing to them. "Playing ball" with the smaller firms in their areas is not part of their game.

The small fry, therefore, must either wait for orders from the big firms on sub-contracts—and so suffer from the discontinuity of employment—or tout for orders at headquarters in London, or pay rake-offs to agents who have personal contacts in the Ministry's contract department. Continuous employment of the small firms, which is essential if we are to avoid waste of man-power and if we are to secure our maximum production, is clearly impossible under the present contract system, which acknowledges—and is based on—the new industrial feudalism.

I am not suggesting that the Regional Boards have not done useful work. Simon Marks, Chairman of the London and South-Eastern Region, told the *Financial News* in February 1942:—

> "We have brought together [through the Capacity Clearing Centres] something like 8,000 firms with work they required to be done and manufacturers who had the machinery to do it. . . . Many bottlenecks have been broken."

These Capacity Clearing Centres are excellent and can well be extended. But the functions of the Regional Boards remain advisory, and not executive, and their success depends on local goodwill and voluntary effort. They have no compulsory powers over the plant and resources of their regions. Each plant remains under private (and often jealous) ownership and control. In the London and South-Eastern Region there are, for example, over 10,000 engineering works and firms possessing machine tools which are, of course, privately owned. How, then, can the Boards rationalise the allocation of orders if each main contractor, or sub-contractor, within each region represents a privately owned unit of capital, each holding on tightly to his plant, his patents, and his labour, each jealous of his rivals, each playing for position in the post-war future? It is significant that when the new Minister of Production took over the Regional Boards and asked

them to "report on" the allocation of orders, advising him if any firm became "overloaded", he gave them no powers of action. The contracts of the big monopolist combine, having access to Supply headquarters, could not be touched.

So, as long as the big combines disregard regional plans and go over the heads of regional officers to the chiefs of the Ministries of Supply, Aircraft Production and Admiralty, there can never be an efficient or economical execution of the national production programme. Indeed, we must look forward to more beautiful planning at the top by the new Minister of Production and his panel of industrial advisers—and a continuance of confusion and self-seeking underneath.

Confusion outside Munitions

The same fundamental defect—insistence on private ownership and profit—is responsible for a like confusion in the civilian services outside munitions. Transport, first. The Government has taken a lease of the railways as the first step towards the rationalisation of transport, but it has not dared to take a lease of private motor transport. Indeed, its half-hearted scheme to run pools of motor lorries by setting up regional offices jointly staffed by Government and private industry has so far been held up by the feud between the road combines and the small independent firms.

Consider the building and contracting trades. These employers receive orders from the Ministry of Works and Buildings, from ten other Government departments and from fifteen hundred Local Authorities. How can coordination of labour and materials be planned under such chaotic conditions? There are at least two hundred and fifty thousand different individual builders in the country, each trying to maintain his own private business, each trying to cope with the conflicting orders of Government departments and Local Authorities.

The Coal Scandal

Then there is the coal scandal. I am not blaming private enterprise for the mistakes of Ministers who took a shortsighted view of the coal prospect on the collapse of France, our largest overseas market, in 1940. "A very little imagination, together with some notion of the production plans", commented the *Economist* on April 11th, 1942, "would

have been enough to show that the surplus supplies of late 1940 were a very transitory phenomenon. As it is, the astonishing and wholly avoidable situation has arisen that not enough coal is being raised for British domestic requirements." In 1942 we shall require over 200 million tons, and output is not nearly up to that figure. The numbers of coal-getters have fallen by 14%, and absenteeism has increased. So the Government first proposed to cut domestic consumption by 10 million tons a year by consumer rationing—by more coupons and more officialdom. The Conservative caucus objected to our being made to shiver next winter to excuse Government cowardice. It knew that much more than 10 million extra tons of coal could be produced if absenteeism were eliminated. But the men are sour, discouraged, "browned off". Why? Because they are badly paid as compared with most other munition workers, because there is a traditional feud between capital and labour in coal, because, while the men feel that in a national emergency our national capital should belong to and be exploited by the State, the owners just don't. "Pay the men less: they would work more," I heard one owner remark recently. The owners have abandoned nothing of their peace-time individualism. The dominant concern of each individual pit-owner is still the possessive one. Coal-mines must remain under private ownership even if war economy and efficiency demand that pits lying alongside each other should be operated as one production unit. There was not likely to be much change when the district Coal Supplies Officers, representing the Mines Department on all production matters, were actually the nominees of the owners.

Lest I should be accused of any bias, I will quote the comment of the *Economist* before the coal settlement:

> "The fact that the industry—and each pit—is still manifestly run for the profit of the owners reacts directly upon the attitude of the men, who use it to excuse the fact that they too continue to seek their self-interest by their familiar methods. . . . The industry is not equipped to play its part in a war economy and is not in fact pulling its weight in a desperate race."

You see what happens when the pursuit of private profit-making during total war leads to bad will on the part of the workers. The Cabinet finally settled the coal

problem in a compromise sort of way—requisitioning the coal-mines for the duration of the war and leaving the question of nationalisation to be decided after the war. Mark the date of this great effort—May 1942, thirty-three months since the war started. One wonders whether they grow grass down the pits.

Confusion by Order of the Board of Trade

Now consider the confusion in the trades restricted by direct order of the Government. These thwarted profit-makers are not concerned so much with circumventing the Excess Profits Tax as with avoiding bankruptcy and the Board of Trade. They feel like capitalists in strait-jackets. They are hampered at every turn by complicated Government regulations, they do not know where next the arm of a Board of Trade accountant will fall upon their business, and they are therefore working in a resentful and unco-operative state of mind, instead of being keenly alert to assist the national drive for maximum production. The result is that their restricted trade—what is left of it—is not conducted efficiently, but wastefully, and that a vast amount of time and labour, which might be employed usefully on war work, is being wasted in filling up Government forms and trying to comply with the ever-changing orders and policies of the Board of Trade.

Consider that Department's Orders for the restriction of the household and clothing trades. Since April 1940 there have been seven Woven Textile Orders, thirteen Miscellaneous Orders, and two Toilet Preparations Orders. The quota periods differ for textile and miscellaneous goods, the quotas themselves vary every six months, and the classification of goods is sometimes changed. Since June 1941, when clothes rationing was introduced, there have been eight Consumer Rationing, seven Cloth and Apparel and seven Price Orders. Each presents a fresh nightmare to the unfortunate trader who has to comply with it. It is not as if each Order consolidates or cancels the previous issues, but invariably the trader is referred back to this or that, which refers in turn back to that or this. I believe that the only living person who can find his way through the maze of clothing trade Orders is the editor of the *Drapers' Record*, who, with a determination which can only come from bitter hatred of his subject, makes a day and night study of the restriction law.

This is how he describes the Sixth Cloth and Apparel Order:

> "No. 6 in this series, which appeared ten days after the date it bears, further amends No. 1, already amended by Nos. 2, 3, 4, and 5. That is not strictly correct, however, because No. 4 was dated after No. 6! With half a dozen Orders, mutilating or grafting pieces on to the others, traders wonder where they are. But perhaps, to vary Euripides slightly, 'Whom the Board of Trade will destroy, it first of all drives mad.'" [1]

The Consumer Rationing Order for cloth and clothes was bad enough, with its endless amendments to revise the coupon-pointing of boleros, French knickers, legless panties and other trifles of the female underneath. But the Miscellaneous Order for household goods, with its seventeen different classes of goods and its dozens of sub-divisions in each class, was perhaps worse. With devilish ingenuity the mathematicians of the Board of Trade, residing peacefully at Bournemouth hotels where the air no doubt braced them for the task of spreading confusion among the restricted trades, devised the system of "factors", so that a different quota might be given to any particular article from that assigned to the class in which it is listed. If, for example, you trade in hollow-ware and are restricted to a quota of 25% of the business you did in a six-months pre-war period, you have to pick out the buckets, kettles, and saucepans and the safety-razor blades and open-type razors, and multiply your money turnover in these favoured articles by a half, so that the effective quota for them becomes 50% instead of 25%. You may not follow the mathematics, astonished reader, but you will probably come to the conclusion that the control of the non-munition trades by complicated Emergency Powers Orders, issued by Civil Servants without any business experience of the trades they are restricting, is the most muddled and wasteful form of administration for the purposes of total war.

Not only does this mix-up of private enterprise and bureaucracy waste time and labour, increase overhead expenses and make the petty capitalist angry and resentful, but it does not necessarily produce the essential goods

[1] *Drapers' Record*, December 13th, 1941.

which the civilian population needs. When labour and materials were available, the Board of Trade did nothing to compel or plan the manufacture of essential goods like buckets, kettles, saucepans, cups and glasses, or of essential clothes of the inexpensive and utilitarian sort for working people and growing children. Now that there is a shortage of these goods and that labour and materials are scarce, will the clothing manufacturers be able to honour the coupons which the Board of Trade has issued with such generosity to the public?

The Board of Trade control started at the wrong end. Instead of planning and standardising production at the outset, and directing manufacturers as to what personal and household goods they should make, in what volume, and to what specification, it began by restricting output by quotas without any production plan at all. This naturally induced the manufacturers to concentrate on making the goods on which they or their wholesalers could snatch the greatest profit. This in turn set up unevenness in supplies and distribution—especially in clothing. The "luxury" rather than the essential clothes were made. To make it worse, wholesalers supplied their old retail customers regardless of the shifts of population. So, in addition to a shortage of essential goods, a mal-distribution of supplies developed. *Some traders got more than they needed—and so created the black market.* Consumer rationing corrected the mal-distribution of clothes—for the supply of clothes had to follow the coupon demand—but since consumer rationing still left the manufacturers free to concentrate on the most profitable lines to the exclusion of the less profitable "essential" clothes, the Board of Trade had to fall back on directing and "designating" manufacturers to make "utility" clothes, as it should have done at the beginning. Only the directions it then gave to manufacturers, first in the "Essential Clothes" Order and then in the utility clothing scheme, were half-measures, inadequate and, according to the trade Press, utterly confusing.

And I might add, when it came to laying down laws as to the number of buttons and pockets and frills and furbelows to be attached to utility clothes, or directing trousers to turn down instead of up, or lace to be taken off knickers, and so on, a ridiculous grand-motherliness was imparted to the confusion of profit-making and red tape. Even at this late hour I hope that my friend Hugh

Dalton will tackle the problem at the right end—take over, control and plan production of restricted, "essential" goods.

Bad Will among Capitalists

Apart from the muddle which private profit-making and bad Government planning inevitably create, I find the autocrats at the board-room tables thoroughly disgruntled with the Government system of taxing profits. I am not pointing to the directors of the big trusts or combines, the vested interests of big capital behind the Coalition. They are tolerating an income tax at 10*s*. in the £ and an Excess Profits Tax at 100% for the sake of their future gain—post-war monopolism. I am referring to the smaller, private capitalists who still regard themselves as profit-makers—as the Government insists on it—but as thwarted, humbugged, and bamboozled. Their state of mind is not difficult to analyse.

First, the Excess Profits Tax has robbed the employer of interest in current profits, and has given him an absorbing interest in post-war profits. It is a mad system which turns the producer in total war to ca' canny. Lack of the profit incentive always breeds among business men carelessness and inefficiency. If the employer's remuneration is a percentage on cost, he will not care so much about economy or speed of output, and if his profits come within the range of the Excess Profits Tax he will not care about increasing them through extra effort. Sir Geoffrey Clarke, the managing director of the Telegraph Construction and Maintenance Company, spoke for every board room in the country when he wrote to the *Financial News* on October 1st, 1941, this ingenuous comment on the Excess Profits Tax:

> "The earning of profits, which is the greatest incentive to production, has been withdrawn. To work solely for the benefit of the country is a fine patriotic ideal, but once the standard profit has been reached, which frequently occurs in the first six months of the year, there cannot be the same incentive to production during the rest of the year when all surplus earnings are taken by the Government."

True, Sir Geoffrey! As long as the capitalist tiger is supposed to feed off the flesh of profits and dividends, you will not change his spots. And if you withhold that meat

from him too long, you will make him very ferocious, and withal dangerous to national life. The Government should have realised that if the managing directors remain the servants of their shareholders and not of the community, it is folly to take away their responsibility for current profits and dividends. It will make many keen not so much to increase current output, or to produce it more cheaply and efficiently, as to improve their factories and plant with Government money for the profit-making race after the war. Cannot the politicians see that if they destroy the profit motive, they must substitute another—they must substitute service to the State in place of dividends for shareholders?

I am not suggesting that this grumbling over the Excess Profits Tax affects the efficiency of the large and old-established armament firms, which have a fine tradition to uphold. But it affects many of the smaller, financially less solid companies, on whom the tax falls harshly and unfairly, and these have an important rôle to play in our war economy. It is possible to have two companies working side by side on identical contracts for an identical 10% on cost. One will pay a dividend of 20% to its shareholders, because it was soundly established and had a fine pre-war profits standard, while the other will pay 6% because it suffered losses before the war, has no profits standard at all, and is allowed only 6% to 8% on the capital employed as a "substitute" standard.[1] I happen to be a director of a machine-tool company with no pre-war profits standard, and I know something of the resentment which burns in the breasts of business-men, especially in the hard-headed north, where they feel that they are not given a "square deal" by the Inland Revenue. Resentful at an Excess Profits Tax which favours one and injures another, they are apt to lose sight of the importance of current output and to start manœuvring for position after the war, when E.P.T. is dead, buried and forgotten.

Taxpayers! Beware the New Industrial Deal!

In the budget of April, 1941, the Chancellor announced that 20% of the Excess Profits Tax would be repaid to companies after the war as a fund for the reconstruction of their businesses (not for shareholders' dividends). Now this concession virtually forced many employers to think

[1] 6% if a public company—8% if a private one.

of the uncertain post-war world and to work out schemes for the employment of this reconstruction fund. Up and down the country you will find many directors as intent on how to resume work after the war and defeat the Chancellor of the Exchequer as on winning the war this year and defeating the Chancellor of Germany.

And there is one certain way in which the canny employer with munition contracts will surely out-manœuvre the Exchequer. The Ministry of Supply has generally been paying for the capital cost of extending or building new factories and installing new plant for munition work. The contractors pay during the war a rental based on the interest and depreciation on this capital expenditure. But what happens after the war? The Ministry of Supply will want to realise these assets, and the only buyers will be the companies on the spot, which have actually been using the machinery during the war. It will then be the turn of the disgruntled directors to smile. You may be sure that the price they will bid for the extensions of their factory and the plant, which have been paid for at top prices by you and me as taxpayers, will be a "knock-out". As they will be the sole buyers, the Government will perforce accept their bids, for the Chancellor of the Exchequer cannot start pulling up machinery and hawking it round the country for sale at different auctions. Even if he did, there would surely be a conspiracy on the part of the buyers not to bid against each other. The auctions would become "knock-out" ones, whatever happened.

Even in the case of new munition plant which has been paid for by the company using it, the law of Excess Profits Tax gives a special allowance against profits from April 1939 onwards to cover the risk of loss of capital sunk in all buildings and plant erected for war work after 1st January, 1937. The risk of loss is ascertained by taking a scrap value for the plant at the end of the war.

The "knock-out" prices at which the new machinery of war production will pass into the possession of the post-war buyers will pave the way for bumper dividends in that halcyon future when profits are profits and tax is not big enough to be confiscation in the eyes of the entrepreneur. Can you wonder that the talk in the board rooms is as often devoted to the post-war defeat of the Inland Revenue as to the current defeat of our mortal enemies abroad?

Few people seem to realise the significance of the approaching transformation when the industrial assets which have been so expensively created by the State for munition-making are handed over to private hands after the war for a mere song. If this danger is not exposed in time, we shall suffer our second industrial revolution—the transfer to the entrepreneurs of the common wealth or capital created by the State through the "blood, toil, tears and sweat" of its taxpayers in war.

Capitalist Conscience-pricking

Many enlightened and intelligent capitalists are becoming extremely critical of a taxation system which makes a farce of total war. Here is an extract from a letter I received from an expert whose job it is to advise on capitalist problems:

> "He [the capitalist] is forced to ride two horses. He does all his work for the State but has to keep an eye all the time on the post-war position of his Company as a privately-run concern. It is easy to condemn this attitude, and it has, of course, its dangers in relation to an all-out war effort. Nevertheless, the State is proceeding on the assumption that the social order will be much the same after the war as before and it is too much to expect the trader to act on a different assumption."

The more conscientious employers are becoming increasingly nervous about the shortcomings and muddles of private profit-making in time of war. As long ago as 17th May, 1941, I cut out of the *Daily Telegraph* this letter of a manufacturer, which vividly expressed the prickings of the industrialist conscience:

> "My firm desires only to produce and to keep on producing, but we are daily forced to do things which are contrary to the public interest, because the system imposes upon us, as a first consideration, the need for making our own living, insuring our future, and securing our financial stability. . . . We work first for personal security and only secondly for national victory. . . . The attainment of 100 per cent. war production by piecemeal and 'voluntary' effort is impossible nonsense."

And there was another tell-tale letter from a manufacturer in the *New Statesman and Nation* of 8th November, 1941:

"My firm is working at high pressure, yet our output of war supplies falls far short of our potential capacity. . . . This is attributable solely to the Government's devotion to the policy of using a peace-time structure as the basis of war production. I have to waste energy and to cool war enthusiasm in the competitive scramble for the best contracts. Success in this effort does not justify its classification as an essential war activity. This playful industrial skirmishing has other results detrimental to the national interest. The best labour must be retained by unauthorised rates of wages and enticing bonuses, irrespective of the firm's immediate needs. In the sphere of costing and prices, the *future* as well as the present stability of the firm has to be considered. We must provide for improbable as well as for probable contingencies. We must purchase materials in the market offering best credit terms and most attractive discounts. Quality, suitability and transport distances are secondary considerations. National and private interests are not even consistently identical in matters affecting quality of work and speed of production. Entertainment and other mild forms of bribery are not entirely excluded from this industrial scramble."

Bad Will among Labour

The workers also find plenty of cause for grumbling. First, they have their own peculiar grousing over taxation. It is a lamentable fact that the new income tax has lessened the incentive to work and reduced the output of the factories. The workers, unused to Somerset House methods, hated the new imposition as much as the wealthy squeal at the extra turn of the screw when they first begin to pay sur-tax. This is understandable. It is only after years of stupefied cheque-signing that one becomes hardened to the tax-gatherers' ruthlessness. We need not listen to mere grumbling over the payment of a proper tax, but it seems a pity that an out-of-date system of assessment, built up from years of experience with income-tax payers who had bank accounts, should have been fastened on the bewildered worker. He has to pay not on his actual earnings, but on the earnings of an earlier six-months' period. When protests were made against this complication, the Treasury produced a beautifully written White Paper with the Budget of 1942 to prove that any alteration of it would only

lead to worse complications. I am sure they are right. You have to start from a new beginning if you would simplify income-tax allowances. But this is not the real objection which the worker finds to income tax. The serious complaint is that the tax rises steeply on the fruits of his *extra* efforts. He may pay only 5% on standard wages, but nearly 30% on his overtime pay. To cap it all, the man finds that his wife's earnings are assessed with his own. Indeed, the husband's marginal rate of tax applies to every penny of his wife's earnings. This rule no doubt sent many women from the factories back to their homes, especially in the long-headed north, where they think more clearly in terms of money. I would not be surprised if the disappearance (temporary, I hope) of the ten thousand Lancashire mill-girls in the concentration of the cotton industry was due to tax escapism.

There is, of course, the provision of post-war or deferred credits for part of the tax, but this again is so complicated that it acts not as a palliative, but as a further annoyance. In fact, there seems to be a universal disbelief in the genuineness of the deferred pay credit. The Chancellor in his Budget speech in April 1942 admitted the force of this complaint, and promised to send each taxpayer "a certificate showing the amount of post-war credit and how it is made up". He refused to issue Savings Books, on the grounds of waste of paper and labour. Yet he allows paper to be wasted by companies advertising "good-will" puffs in the newspapers and charging the expense against the Inland Revenue!

But there are more serious causes of complaint among workers than income tax. The rank and file of labour are disgruntled because, although wages are increasing, they have been given no voice in factory management, because they watch men often standing idle at the benches through hold-ups of supplies or failures of organisation, because they see private capital in ownership control of the munition works in spite of the Coalition's promise that capital would be conscripted equally with labour, because they have their womenfolk called-up from their homes to work in factories, sometimes for private profit, because they see the directors and managers doing themselves well with tax-free expenses, because they know that the buildings and plant which the Government is now paying for will redound to private profit after the war, because they are dis-

gusted with a munition system which works for profit instead of service to the State at war.

The more enlightened employers have set up production councils or committees at their works on which labour and management can meet and discuss their problems, pool suggestions for improving works efficiency and generally pull together for the common task of accelerating output. The Government has blessed the idea of these works committees and has now instituted them at all Royal Ordnance Factories. The Trade Union Congress has also bestirred itself to work out a plan for setting up workshop committees in all war factories of important size. But even so they do not go far enough: they do not cure the organic diseases of the system and they do not meet the burden of labour's real complaint.

What is at the bottom of the rank-and-file dissatisfaction? When the Parliamentary Secretary of the Ministry of Labour told a labour conference in Manchester not long ago that "the profit-making motive in industry had gone", he was greeted, not unexpectedly, with roars of laughter. Clearly, no worker will ever believe that his toil in the munition factories is not enriching private capital as long as the works remain in private ownership and control. Excess Profits Tax does not remove his suspicions. He may agree with you that the Company for which he is working is not paying bigger dividends than before the war; he may even allow that the net profits (after E.P.T.) are no larger. But he will refer you to the prosperous appearance of the managing directors and their works. Indeed, he will be aware that the works are better painted, better heated, better cleaned and maintained, better tooled, better stocked, since dividends were limited and Excess Profits Tax was imposed. He will suspect that the Government pays for all these improvements and that the private owners will reap the benefit after the war. Under this system nothing will convince the thoughtful worker that his labour in the war will not enrich the private capitalist who employs him. When you are working for your life, the sight of profit-making is apt to be disgusting.

This is a grim war. We are fighting for our national existence, and the worker, knowing how the Nazis have treated the German trade unions, is probably better aware of its seriousness than his employer. Why, he asks, does not the Government treat it seriously, take over the munition

factories and run them as national production shops? Why does it ask him to make munitions for the defeat of Hitler and give the profit on them to a private capitalist?

Now, thoughtful reader, you will understand why the profit war economy of the vested interests makes for confusion and bad will. Especially bad will in coal.

CHAPTER EIGHT

INFLATION AND BLACK MARKETS

"The task of finance in war is to see that nothing is decided on financial grounds."—*The Economist.*

"Any attempt to control movements for increases in wages is impracticable and undesirable."—TRADES UNION CONGRESS, September 1941.

THE FINAL charge in my indictment of the system of dual allegiance to vested interests and State falls under the heading of inflation—and black markets.

THE NEW INFLATION

Picture the ballet, and the curtain rising on a fantastic *décor* with disturbing and disharmonic music from the orchestra. A macabre dance begins. The dancers are Sir Walter Citrine, in brilliantly coloured pantaloons, in the rôle of the Trade Union Congress; Ernest Bevin, playing with elephantine mime the great Coalition Government; Lord Kindersley, beating the drum of the Voluntary Savings Campaign; a sinister-looking figure in black who is Chief Racketeer; little Sir Kingsley Wood with his Treasury box, leaping in and out of their way with terrified squeals, and Stafford Cripps as an angel in white with Russian boots, holding up his hands in horror. They dance round a national cake which gets smaller and smaller, while the smile on the Racketeer's face gets broader and broader. In a corner, two swollen-headed figures, labelled "Prices" and "Wages", spiral round and round unceasingly. In the background, Winston Churchill majestically walks about, dressed as a warrior in battle-dress—or is it boiler suit?—but pays no attention whatever to the dancers. When the national cake finally disappears there is a shriek of dismay from Sir Walter Citrine, whose pantaloons are split, and hollow laughter from the Chief

Racketeer, whose pockets are now bulging. Lord Kindersley bursts his drum, little Sir Kingsley drops his Treasury box and spills his money all over the floor, while Ernest Bevin suddenly charges madly upon the warrior form of Winston Churchill. Just as the public is beginning to get enraged at this farcical spectacle, Maynard Keynes, who has been laughing behind the scenes all the time as the head electrician, presses a button and drops the curtain. And at that moment (perhaps) Sir Stafford Cripps steps in front to address the audience. That is how I see this farce of the inflation dance which is now being played in the national theatre.

Inflation is the price of the bargain struck between capital and labour which brought the Churchill Coalition into power. By inflation I mean price-inflation, and price-inflation comes about when people try to buy £100 worth of goods when only £80 worth are available. (In that hypothetical case the goods would be inflated in price by 25%.) But today's is not the old-fashioned sort of inflation. Indeed, the Treasury has been so clever in disguising it that few people know that it exists, or that the modern inflation takes visible form in dishonest racketeering instead of the old-fashioned honest profiteering.

The Conventional Inflation Spiral

The conventional routine of inflation was clearly expounded in the Government's White Paper on price stabilisation and industrial policy issued in July 1941. No wonder the Trade Union Congress took offence at this Paper, for, while apparently stating harmless economic theory in an innocuous way, it made deadly thrusts at the Trade Union policy for wages.

The beginning of the vicious spiral is always found in rising prices, which follow upon an influx of Government or private expenditures. This causes a rise in the cost of living, which allows the Trade Unions to demand increases in wages which the Wage Tribunals cannot fail to grant. This is followed by a further increase in prices, and so on, indefinitely, wages chasing prices, in an unending spiral. The whole economy is then thrown out of gear. The money-costs of running the war rise so rapidly after a time that the Government is unable to raise new taxes sufficiently quickly to meet them. The Treasury then has to borrow fresh money from the banks or the

Bank of England, and these new borrowings further inflame the inflationary disease. By creating insecurity and confusion, the spiralling prices impede the production drive, give great opportunities to the profiteer and inflict hardship upon poor people in receipt of fixed money incomes, as from old age pensions, insurance benefits, annuities and the like, who have no rises in wages to offset the extra cost of living. That is the terrifying picture of the conventional inflation spiral.

Keynes Plan Rejected

To stop inflation at the beginning it is therefore necessary to stop the rise in prices. But this is impossible if the national income is allowed to go on rising—thanks to the Government's bargain with the Trade Unions—and the supply of goods on which the incomes can be spent is forced to go on declining. To avert inflation, J. M. Keynes, who generally sees everything in advance of everyone else, put forward a plan for compulsory savings as early as February 1940, before he became a full-time Treasury official. The logic of his scheme was unanswerable. It was the only thorough way of tying up the buying power created by the rise in wages before it was let loose in the shops.

Unfortunately, the Trade Unions rejected this plan. Keynes invariably brings to the argumentative battle the blitz tactics of a Rommel, which, of course, arouse intense and stubborn opposition on the part of his opponents. The more cunningly he argued for compulsory savings, the more the Trade Union bosses hated it. Nor did they like giving the Government discretion as to when and how it should release the blocked savings after the war. Being an economist, Keynes could not resist the temptation of timing the release with the onset of the first post-war slump. The Trade Unionists saw danger in giving this discretion to a Government which might be an anti-labour or reactionary one. So his plan was rejected, and the Government fell back on a compromise, or rather upon a combination of compromises. It stuck together bits and pieces out of every counter-inflation policy under the sun. This hotch-potch of a programme had a greater success in restraining and disguising the inflation than it deserved. Since the beginning of the war the Cost-of-Living Index has risen by 28% and the Board of Trade

index of wholesale prices by about 50%. Indeed, Sir Kingsley Wood in his Budget speech in April 1942 claimed that the general price level had now been stable for about ten months. The increases in basic wages in 1941, he added, were not of a kind calculated to produce the inflationary spiral. But they kept the experts guessing anxiously.

No doubt the Treasury owes most of its success to Keynes, Sir Hubert Henderson and other draughts of fresh economic air which it allowed to blow inside its stuffy Chambers. But I hope that Keynes did not change his revolutionary spots when he donned an official overcoat at the Treasury and acquired the top hat of a Bank of England director. Some drastic, if not revolutionary, action will have to be taken before long in Government finance.

Counter-Inflation Hotch-Potch

Now examine the make-up of the counter-inflation programme. The Government followed six lines of action more or less simultaneously, believing, rightly, that together they would be less inadequate than if taken one at a time.

First, it stepped up income tax to 10*s*. in the £ in order to restrict the expenditure of those with most money to spend, and it extended the tax virtually to all workers, for exemption is now allowed only in cases where total income does not exceed £110 a year.

Second, it appealed for more voluntary savings, and in 1941 net personal savings came to £665 millions, against £475 millions in 1940.

Third, it even introduced a minute particle of the Keynes plan of compulsory savings, for it allowed the reduction in the allowances and the exemption limit of income tax to be reserved as a post-war credit: in other words, it translated part of the extra taxation into forced loans. These the Chancellor estimated at about £125 millions a year.

Fourth, it rationed foodstuffs, petrol and clothing. And rationing may be extended to coal and coke, gas, electricity, paraffin and certain household articles.

Fifth, it controlled prices by legislation—first, food prices, then non-food prices. The Goods and Services (Price Control) Act, as far as it went, was effective, for it employed the democratic machinery of local "popular"

committees. Anyone who suspected profiteering could report the case to a local Price Regulation Committee, which, after investigation, would advise the Central Price Control Committee to institute proceedings. These local Committees were like people's courts, smelling out the profiteering enemies of the people. Some of them greatly enjoyed bringing the saboteurs to justice. But all agreed that their powers did not go far enough.

Sixth, it kept certain food prices stable by subsidising the millers, the egg and milk producers and so on. These subsidies cost the Exchequer about £140 millions in 1941. The Chancellor of the Exchequer in his 1941 Budget said that he proposed to extend the policy of price stabilisation to prevent any further rise in the cost of living by stabilising transport rates, coal, gas and electricity charges, and the prices of other articles in common use. The Board of Trade acted upon this policy by fixing over-riding maximum prices for essential clothing under its utility clothing scheme, and by fixing also the margin of profit allowed to manufacturers, wholesalers and retailers of utility cloth and clothes.[1]

How proud the Treasury officials must have felt when they contemplated the clever comprehensiveness of their counter-inflation policy! The Cost-of-Living Index has risen by an extremely modest percentage.

The Consequences of Compromise—Black Markets

But the defects of this policy of compromise have been obvious from the start. In spite of the increase in taxation and in voluntary savings, the surplus of spendable income over available goods has been steadily increasing. Shipping losses and fewer imports, the call-up of man-power and woman-power from the civilian factories into the Services or munition works have all contributed to reducing the supply of goods for civilian use, while the rise in basic wage rates and weekly earnings has been forcing up the supply of pocket money. When the Chancellor introduced his Budget in April 1941 he estimated that the public would have incomes that year amounting, after the

[1] The margins of profits were pretty generous. The manufacturer or maker-up could add 4% to 7½% to his all-in costs of production, the wholesaler could add 20% to the price paid to the manufacturer and the retailer could add 33⅓% to the price, including Purchase Tax, at which he buys from the wholesaler or maker-up. (In other words, the retailer has a profit also on the Purchase Tax.)

deduction of taxation and the usual savings, to £500 millions in excess of the value of goods available in the shops. J. M. Keynes, when he gave a radio address to the three million new income-tax payers on December 22nd, 1941, put the excess at an even higher figure.

What, then, is the result? Obviously the attempt to spend larger incomes on a shorter supply of goods must lead to soaring prices for all goods which are not rationed or controlled. As these, generally speaking, do not enter into the Cost-of-Living Index (except certain clothes), the Government does not have to fear demands for higher wages. You will remember that at Christmas 1941 we had to pay "through the nose" for wines and spirits, for games and children's toys and a lot of "luxuries" we could well have done without. It was, indeed, our first inflation Christmas. But worse is to come. Just as surplus steam must have a safety-valve, so must the surplus money in the pockets of the spenders. The safety-valve here is the "luxury" of the black market. If the law effectively prevents sky-rocketing of prices—and the Goods and Services (Price Control) Act, which is to be tightened up, does prohibit increases in profit margins—illegal sales will follow. In other words, the law will be circumvented.

Black markets are on the increase. The existence of large stocks built up in the first two years of war by manufacturers and wholesalers, who should have been devoting their energies and plant and labour to the war, has enabled the racketeers to reap a rich harvest. Citizens with a sense of honesty and patriotism but a limited amount of money or time to spend in shopping or standing in queues or hunting for shop "speakeasies", suffer most from this inflationary folly. Those with a highly developed predatory or anti-social sense, and with money and time to burn, gain most.

The workers, enjoying their first taste of extra money incomes, may not see the light of economic truth immediately. Indeed, they will find it enjoyable to spend their bigger wage-packets on drinking more, gambling more, and buying up the remaining luxuries which are not rationed in the shops. But the time will come when they will not be able to buy anything worth while, and then they will get extremely angry.

Even if there were no racketeering, there would be a limit to the control of prices in a period of inflation, for,

either the price-controlled goods will disappear from the open market, being unprofitable to produce, or the cost of subsidising them will require so many hundreds of millions that the Government will have to enlarge its borrowings from the Banks, and so inflame the inflation. Indeed, the success of controlling some prices only reveals the failure to stop the inflation of other prices. If you do not ration all goods, if you do not limit the expenditure of everyone, some prices will always be rising as long as wages are rising or the well-to-do can still spend their accumulated savings. The Board of Trade, for example, has fixed economical, if not cheap, prices for its controlled utility clothes, but it has not prevented uncontrolled clothes from soaring in price. The Ministry of Labour index of all clothing prices reveals a rise of nearly 100% since before the war. Would Sir Walter Citrine like to see the prosperous wage-earner using his surplus earnings to buy a non-controlled Savile Row suit in a non-controlled cloth at 25 guineas? Would he like to see him replenish his larder with a jar of stewed fruits in curacao (on sale last Christmas at 45*s.*), or to fortify himself with expensive hooch, or to pick up a case of champagne at a City auction for £30 (latest price for Veuve Clicquot was 51*s.* a bottle), or, when all else fails, to gamble his surplus on the dogs? Do not the Trade Union leaders realise that by insisting on wages chasing prices during an inflation spiral in a beleaguered country with a diminishing stock of goods, they are playing with a highly dangerous explosive, a mine which may blow up the existing social order?

Trade Union Gloss

Sir Walter Citrine is no fool. He tried to gloss over the famous edict of the Trade Union Congress that "any attempt to control movements for increases in wages is impracticable and undesirable", in a speech on "Wage Policy in War-Time" which was conspicuous for its sweet reasonableness. Wages, he said, were "only a part, and a very small part, of what actually causes the increase in purchasing power". (He did not add that it was the only part the State could effectively control.) He then argued that some measure of inflation was inescapable in any case. Of course, he remarked, there was no perfect cure, but he believed in the Government's remedies of rationing, price-control and subsidy, which

the Trade Unions themselves had recommended. Finally he put his faith in the extra-Governmental remedy of savings. The advice of the General Council to the wise Trade Unionist, he said, was to save as much as he could. He conceded that if voluntary savings were found to be inadequate they would be faced with the "need for other, and more stringent, means of combating inflation". This seemed to suggest that the Trade Union leaders were prepared to consider some form of compulsory savings, which is all to the good.

The Consequences of Voluntary Savings

Let us examine at this point the implications of the policy of voluntary savings. As Keynes has said in "How to Pay for the War", there is no difficulty in paying for the cost of the war out of voluntary savings—provided we put up with the consequences.

> "A Government which has control of the banking and currency system can always find the cash to pay for its purchases of home-produced goods. After allowing for the yield of taxation and for the use of foreign reserves to pay for the excess of imports over exports, the balance of the Government's expenditure necessarily remains in the hands of the public in the shape of voluntary savings. That is an arithmetical certainty, for the Government having taken the goods, out of which a proportion of income has been earned, there is nothing on which this proportion of income can be spent."

Actually, if the public does not save that proportion of income, but tries to spend it on the goods which remain (after the Government has helped itself), the prices of these goods will necessarily be inflated. But these higher prices will swell someone's receipts, so that there is just as much left over in the national till as before. These extra receipts will be taken, as to half at least in direct taxation, and if the other half is not saved but spent again on the remaining goods, part of these extra receipts will be absorbed in purchase tax and other indirect taxation, and part will go to inflate prices again, so that someone else's receipts will be swelled. And so on. The Government could watch this process of inflation indefinitely without worrying about the finance of the war if it were not for two "snags". First, at each price rise

the workers, with Sir Walter Citrine's encouragement, will demand an increase in wages which will directly increase the cost of the Government's war expenditure and accentuate the inflation of prices. Secondly, each price rise goes to benefit not only honest profiteers and traders but dishonest racketeers who escape payment of income tax and surtax by skilled evasion. So, what the Government loses to the racketeer will go to swell the inflation. Even so, if the rise in wages lags behind the rise in prices (as it did in the last war), the Government may get through with its "voluntary savings" policy without a run-away inflation. But in this war I fancy there is less likelihood of success.

Consider what happened last year. There is no item in the national accounts labelled "inflation". Everything adds up and looks respectable. In 1941 the net national income at "factor cost" (that is, excluding the indirect taxes which swell market prices) rose by 13%, from £5,585 millions to £6,338 millions. But, as the *Economist* pointed out (April 18th, 1942), this was far larger than could be explained on the basis of the actual increase in physical output. There was, therefore, an inflation of money values. This inflation was hidden in the items of tax revenues, personal savings, and floating debt (bank balances lent to the Treasury), which were all swollen. But the rise in wages, though moderate, did not lag behind the rise in prices last year. Even according to the index numbers, it went ahead.[1]

The Chancellor knows very well that he is skating on thin ice. In the financial year to April 1942 the gap between available Government resources and Government expenditures was £1,521 millions. Savings and undistributed profits came to his rescue with £1,028 millions. Thus, a balance of £493 millions (called domestic disinvestment) was added to the floating debt. In the current year he estimates the "gap" at £2,109 millions.[2]

	Sept. 1939.	Jan. 1941.	April 1942.
[1] Cost-of-Living Index	155	196	199
Wholesale prices (Board of Trade Index)	105·6	149·5	159·6
Wages (Bowley's Index) . . .	106	123	134

[2] 1942–3 Revenues are estimated at £2,402 millions and expenditures requiring domestic finance £4,511 millions. This is after allowing £775 millions for overseas disinvestment, including the Canadian Government contribution of £225 millions.

He is hoping for bigger savings from a larger national income, but what about the huge increases in the duties on beer, spirits, wines, tobacco and entertainments and the doubling of the purchase tax on luxuries? You cannot expect the same volume of savings if you pile up indirect taxation. The Chancellor is indeed skating on thinner and thinner ice.

What the Government's policy amounts to is now as plain as a pikestaff. Voluntary savings necessitate inflation; inflation brings swollen receipts for traders, profiteers and racketeers; swollen receipts for traders and profiteers (if they are honest) mean extra tax receipts for the Treasury and extra voluntary savings for Lord Kindersley or extra cash balances at the banks, which will be lent to the Treasury in any case. Of course, the larger the amount of voluntary savings, the less the price rise at each stage of the inflation, but the less the amount of voluntary savings—or, shall I say, the larger the amount of dishonest trading and racketeering?—the greater the price rise at each stage of the inflation.

The Farce of the New Inflation

The economics of voluntary savings is quite simple, but what a fantastic system to adopt for a total war economy! How crazy to allow wages to go on chasing prices, in the hope that they will never catch up! They might—easily! And who really benefits except the dishonest profiteer who becomes a racketeer, sells the diminishing stock of goods in a black market and hides the inflated profit from the tax collectors? The workers by getting bigger wages can no longer increase their real standard of life at the expense of the richer classes of society, for the worth-while goods they require for it are either strictly rationed or in diminishing supply. Foodstuffs are cut down to the minimum necessities of life. So is clothing. So are coal, gas and electricity. So, by the nature of things, are personal services. You are left with a few household luxuries—the household necessities are bound to be rationed—which would be in short supply even if the so-called rich stopped buying them altogether. In other words, if you insist on spending, you will be driven to the food, clothing, tobacco and drink of the black markets. Are the workers now going to scramble for the illicit things, for the remaining stocks of

wines, spirits and cigars, for diamonds and jewellery for their wives and "girl friends"?

Breaking Point or "Show Down"

Now, intelligent reader, you can appreciate why at a time of total war it is madness to allow increases in wages and other incomes to occur without tying up the buying power they create. *Larger incomes cannot raise the general standard of living, because they cannot make extra goods available for civilian buying.* No class of the community can better its *real* standard of living during a total war. It can only better its money savings. And yet the Trade Union leaders rejected the Keynes plan of compulsory savings, which would have given the workers at the end of the war a greatly increased slice of the national cake. So just what are they driving at? By being muddle-headed or pig-headed, by insisting that money wages must go on chasing prices, they are merely running the risk of the uncontrollable inflation which would beggar the workers as well as everyone else in the community, except the racketeers and the guests of His Majesty's prisons.

This is perhaps the ultimate breaking point in our war economy. The Government has made a dangerous mistake in allowing both capitalists and workers to earn larger and larger sums, and then trying to recapture the excess by the Excess Profits Tax in the one case and income tax in the other and by indirect taxation over all. You do not stop an inflation in that way. You start a new one—the inflation of luxuries and the black market.

The public is undoubtedly alarmed by the growth of the black markets. It is shocked by an insane wages policy which is embarrassing even the beneficiaries. A halt must now be called before it is too late. The Trade Union leaders must realise that if they go on chasing prices with wages, until the racketeering becomes uncontrollable except by hanging, they will be held to account by the nation for sabotaging the war machine.

* * * * *

It is time, indeed, that the nation came to a "show-down" with this Coalition of the vested interests. Capital must not be allowed to go on playing for its post-war profits and holding up the rationalisation of our war economy by insisting on its rights of private ownership. Labour, on the other hand, must give up trying to snatch a larger

PART V

THE WAR PLAN

CHAPTER NINE

THE COMMON POOL OF CAPITAL AND LABOUR

"There will be no profit out of the national emergency . . the essential thing is that over a wide field—how wide one cannot say at the moment—industry will be carried on for the community in fact—and not for private profit."—CLEMENT ATTLEE, Lord Privy Seal, May 22nd, 1940, in the House of Commons.

IT IS a simple, practical plan I put forward—an economic design for total war. It is applicable to the special problems of this country and of no other, for we are a peculiar people, and what goes well in Russia or in America will never have a chance to work in opinionated Britain. It is a plan designed generally to meet the grievances I have ventilated, which arise from the present mal-distribution of economic loss. It is also a plan which can be adapted, as I will show, to meet the upheavals of peace and reconstruction. But it is essentially a war-time plan, not patterned on any particular theory or scheme, but one which took shape in my mind after working inside the capitalist system and the Government machine. I began to discuss the common pool of capital and labour in articles in the *New Statesman and Nation* in October 1940. Many Socialists now demand the "common pool", but no one, as far as I know, has worked out the details of any practicable scheme. Here is my modest attempt, which I am emboldened to publish abroad, because I live in a democracy where freedom of speech and thought are permitted even in time of war. Besides, frank discussion of the remedies for popular complaints serves to stiffen the national morale.

OBJECTIVES

My analysis of Coalition rule has, I hope, brought home the objectives which any radical plan for reform must secure. These objectives are four.

The first, obviously, is to break the stranglehold of the vested interests, to turn out the men who hold office, not because they are inefficient, but because they represent the vested interests of capitalist organisations or Trade Unions, to remove the business controls from the hands of the "big business" combines and the labour controls from the hands of labour, to give up for the rest of the war the idea of privately-owned capital and privately-owned labour with vested rights or privileges. When a factory or business is required for munitions or any other Government purpose, the owner must not ask: "What are my profits to be? What guarantees am I to have? How am I to get my business back into shape after the war?" He must accept the orders of the State; he must surrender the plant and offer his services as a manager—that is, *if* he is efficient enough to be called as manager. When a worker is required to transfer his labour from his home to another theatre of munitions far away, he must not ask: "What are my wages to be? What about my union and craft?" He must accept the national wage of the industry and of the grades agreed to between the Government and his Trade Union. Are not the soldiers, the airmen and the sailors, who are called up under the National Service Act, accepting the orders of the Government and the pay fixed by the State every day of their lives? Why differentiate between the fighters for democracy? Why try to run the domestic front on profit and the battle front on glory?

The second objective is to rationalise and concentrate the war economy, so that unnecessary private labour or private enterprise or private expenditure can be eliminated. Every man and woman must be put to work for the war or for the essentials of civilian life, as long as they are capable of work. Total war, as I have said, means that everyone should live, eat and be clothed for one object—to fight or service the fighters.

This rationalisation and concentration of the war economy calls for the more equitable distribution of the economic losses of total war; in other words, it involves compensation for the economically bombed.

The third objective is to kill inflation—in other words, to give the workers the monetary rewards for their extra effort without inflating the black markets, injuring other classes or blowing up the social structure.

And the fourth objective is to inspire. We shall never

achieve maximum production without a new enthusiasm and a new morale. We must assure the individual working man and woman that their long hours of toil will not go to enrich private capital. We must convince the nation that we have substituted war service for profit, that we have abolished government by vested interests, and that in its place we are organising the institution of the common pool of capital and labour.

Plan for Capital—"Lease and Lend"

My plan for capital is, as it were, a domestic counterpart of Roosevelt's famous "Lease and Lend". I start with the principle that for the duration of the war the State must take a lease of all the real capital resources of the community—that is, the whole of our natural wealth and the instruments of production.

Why this has never been done before is pretty obvious. It has not been to the advantage of the vested interests to do it, and what they say goes for the Coalition Government. But it is the only logical thing to do if we want to achieve a total war economy.

To pretend that capital can perform its normal functions and earn its normal profits in a period of total war is utter nonsense. Normal trade ceases to function. There are no normal risks which capital can undertake: there is no normal adventure for which it can expect normal rewards.[1] The truth is that the State becomes the sole entrepreneur. The only enterprise left is that of war. The peace-time capitalist is thus forced to become a rentier.

It is therefore self-evident that the State becomes the sole manufacturer and trader in total war. It has to control all imports and all exports. It cannot allow private exporters to use imported raw materials and divert labour and plant to export goods just for the sake of earning normal foreign currency, for there is no normal foreign exchange. Exporters must accept the directions of the State. The State also becomes the sole domestic trader, for it cannot allow private enterprise to manufacture and distribute non-essential goods or luxuries or to carry on a

[1] Capitalists did take certain risks at the beginning of the war in laying down new buildings and plant for war work, but they exacted guarantees from the Government to cover them in the shape of allowances against Income Tax, National Defence Contribution and Excess Profits Tax.

redundant business in wholesale merchandise. All the available labour, materials and plant are needed for the servicing first of the fighting forces and, secondly, of the essential needs of the civilian population. There is no longer any surplus for private enterprise to fashion for the comforts of our homes. It is, therefore, only logical that the State should take a lease of all the real capital resources of the country.

The Government has already taken powers under the Emergency Powers (Defence) Act 1940 to conscript both private persons and private property. No new powers should be necessary for this further assumption by the State of the wealth of the community. But the Government must declare, first, what sort of rent it will pay for its lease of capital, secondly, which industries and trades it proposes to manage itself and which it intends to leave in private hands to be operated under its general supervision. If these points are carefully defined, there should be no upset to the efficient working of the war machine.

Terms for Capital

A State lease of capital for the purposes of total war assumes that the whole of the earnings of industry and trade accrue for the duration of the war to the Treasury. How will the present owners of capital be compensated?

I have already argued that the former entrepreneurs—the ordinary shareholders, the equity-holders, the partners in business adventure or trade—become in a period of total war rentiers. The rent-charges which the State should pay for its lease of capital are, therefore, in the nature of rentier interest, or, shall I say, "fixed dividends"? How shall they be calculated?

The scheme for compensation must be simple. In the middle of a war the Government cannot raise armies of officials to work out figures. You might, therefore, argue that all capitalists should be guaranteed their pre-war income from dividends. But this would be far too generous to a privileged minority of the community. It would perpetuate the evil of the Excess Profits Tax, which, as I have said, favours the stable and prosperous consumption trades, like beer and tobacco, enjoying a high pre-war standard of profits. I do not propose to play into the hands of the vested interests which have been allowed to escape their fair share of the burdensome finance of the war.

The Excess Profits Tax gives the entrepreneur four choices over three years. A company can choose the average profits of the years 1935–37, or the average profits of the years 1936–37, or the profits of the individual year 1935 or 1936. Subsequent or additional capital is allowed 8% or 10% [1] (public or private company), and there are special depreciation allowances for war plant and for wasting assets. It is regrettable that this profits standard should be such a generous one, for the late Lord Stamp's index of total profits revealed that the average of 1936–37 was 14% above the boom year of 1929. Indeed, the industrial earnings in 1937 were already feeling the tonic effects of the Government's attempt at re-armament.

When I first contemplated this problem I wanted, therefore, to break away from the profits standard and revert to a capital standard. It seemed to me more reasonable that the fixed compensation dividends should vary according to a scale from 4% upwards—according to the type of enterprise, its risk-bearing in times of peace and its rate of capital depreciation or waste. Thus, 4% might satisfy an enterprise, like electricity supply, which suffers little risk or capital depreciation, while 8% might be allowed to a heavy industrial plant, or even 16% to a mine with a short life. And in cases where the tangible capital is small (because it is a "personal service" enterprise), I thought that the accountants should calculate how many times the capital was turned over in a normal trading year, and then multiply the scale compensation dividend by this figure.

I feel sure that this is the ideal way of calculating the compensation due to the entrepreneur whose capital is taken over by the State on lease. But it involves a lot of calculation in the ascertaining of the amount of real capital employed—as business men and Inland Revenue officials know to their cost in cases where a "substitute capital" standard is employed for Excess Profits Tax. So, for convenience and ready reckoning in war, I propose that the compensation rentals paid to firms for a war-time lease of their capital be the generous pre-war profits already agreed for the purpose of Excess Profits Tax *less* 5*s*. in the £ for

[1] In cases where a company earned no profits or inadequate profits in the standard period it is allowed a "substitute" standard of 6% or 8% (public or private company) on the capital employed. In case of companies set up after June 30th, 1936, percentage profits of 8% or 10% are allowed.

special National Defence Contribution (which at present is only 1s. in the £).[1]

Let us see how this proposal would work out. The Budget White Paper [2] gave the following estimates of the net national income:

	In £ million.		
	1938.	1940.	1941.
Rent of land and buildings	373	383	379
Profits and interest [3] .	1,351	1,542	1,722
Salaries [4] . .	1,081	1,176	1,216
Wages [5] . .	1,790	2,484	3,021
Net national income [6] .	4,595	5,585	6,338

Now, in 1941–42 the Treasury received £247 millions in Excess Profits Tax and £21·8 millions in National Defence Contribution—a total of £269 millions. For 1942–43 the Chancellor estimated these two together at £425 millions, presumably increasing the yield from Excess Profits Tax by about £150 millions.

On these figures, if my scheme had been in operation in 1941, the Treasury would have received the whole of the item of £1,722 millions representing "profits and interest", and would have paid out in compensation rentals to the capital-owners something like £1,351 millions (on the 1938 figure) less about £110 millions in special N.D.C. (at 5s. in the £), say £1,240, so that its net receipts would have been £482 millions, against the £269 millions which it actually received in Excess Profits Tax and National Defence Contribution. If the Treasury would have been £213 millions better off in 1941, I would guess that it would be £500 millions better off in 1942 if my scheme were adopted.

Advantages of the Capital Plan.

The mechanics of the scheme should be simple. The banking accounts of all trading firms would be blocked by

[1] In cases where the firms have a "substitute capital" standard for E.P.T. because their pre-war profits were inadequate (often the young and enterprising firms) I would reduce the N.D.C. from 5s. to, say, 2s. This, I think, would deal out rough-and-ready justice.

[2] 6347, April 1942.

[3] Before deduction of National Defence Contribution and Excess Profits Tax.

[4] Includes pay and allowances of serving officers.

[5] Includes pay and allowances of serving ranks.

[6] This represents the net national income at "factor cost"—*i.e.*, excluding indirect taxes.

the banks on Government Order. Payments for running expenses, salaries and wages would be released by the bank managers on the accountants' certificates. Personal expenses of the directors, managing directors and managers, which have been computed too liberally against Excess Profits Tax, would be disallowed. (It would surely be easier for the local bank managers to spot these excessive expenses as they arise each week than for the tax-gatherer at the end of a year.) All surplus balances would then be paid to the Treasury, and out of this National Trading Surplus the Treasury would meet the war-time hire or lease payments—in other words, the "fixed dividends" to the capital owners. These would be paid to the companies or firms as units, not to the individual shareholders, and it would be left to the discretion of the directors whether to pass them on in full to the shareholders or apply part of them to reserve.

The simplicity and charm of my scheme should now be apparent.

First, it enables the Excess Profits Tax to be abolished. As this tax has been making for extravagance and inefficiency, this would not only remove a serious brake upon production, but would have the effect of cheapening the whole cost of the war output.

Secondly, it ends the working man's suspicion that capital can profiteer out of the war or wangle a profit out of the Excess Profits Tax. By removing the worker's discontent, this would also tend to lift output.

Thirdly, it enables the Government to compensate the economically bombed—the traders who have suffered losses from the war through no fault of their own. This makes it practicable, at long last, to put industry and trade on a total war footing—by concentrating production, by eliminating redundant wholesalers and middlemen, and by telescoping the retail trade—without causing grievous losses to innocent traders. The compensation paid to the economically bombed would not, of course, cost the taxpayer a penny, for it would depend on, and be paid out of, the National Trading Surplus accruing to the Government.

Thus, rough-and-ready justice would be done both to the trading community and to the taxpayer. And as soon as the redundant middlemen and shops were eliminated and closed down, the sources from which the racketeers

now draw their goods for illicit re-sale in the black markets —to the growing demoralisation of the public—would be dried up and finally extinguished.

Plan for Labour

The time has come to end the dangerous spiral of wage rates chasing the cost of living, to make it impossible for private employers to bid for labour in the market so that wages must rise with the increasing scarcity value of labour; in other words, to end the indecent bargain struck between the Trade Union leaders and the party of the employers.

Under the Goods and Services (Price Control) Act it is made illegal to advance the prices of goods by reason of their scarcity or reduced turnover. Is the price of labour to be treated differently? It has now become a matter of urgency to stabilise national wage rates before the present farce of the inflation becomes a national tragedy. But at the same time there must be a new appeal to the workers. In short, let us stop bribing them. Let us take them into partnership in the war enterprise.

The plan for labour, then, is to have a national wage charter fixing wages for the remainder of the war, with a national minimum wage and a guaranteed week. Let it be negotiated between the Government and Trade Union Congress. When the national minimum wage has been fixed, let it be applied to each man in the services, with a flat-rate deduction for the cost of maintenance and clothing,[1] which might be around a guinea a week. The fighting men would then be on the same footing as the workers in civilian life. This is an essential for a democracy at total war.

Separate negotiations would have to be undertaken between the Government and the Trade Unions so that a "national" wage rate be fixed for each industry. A time limit should be set to these negotiations, and I venture to think that there is sufficient unanimity of thought in the country among all ranks of society for the terms of reference to the negotiators to run on the following lines.

[1] I do not mean the cost of food and clothing to the army, but their normal cost for the average worker in receipt of wages around 60*s*. a week. The Board of Trade estimated that the 60*s*. a week man spent less than £6 a year on clothes.

(1) There should be an agreed week of so many hours. The physical efficiency limit to a man's work varies, but Bevin's standard is 52 hours. Overtime pay should go. The week of so many hours should be guaranteed to each worker, whether he is in fact fully employed or not. Under total war conditions it is the State's responsibility to see that each worker *is* fully employed.

(2) The basic minimum wage for each industry should be an hourly rate, varying according to the degree of skill required of the worker. Special bonuses (not overtime pay) should provide the money-incentive for extra work and output. A scale of bonuses might be worked out for the munition factories, where a speed-up of production is most urgent. Pay by results should be the motto whenever an extra drive is required in the munition factories. This would enable the piece-work system to be revised and restricted.

(3) There should be coupled with the basic wage a flat-rate addition for children (Keynes proposed 5*s*. a week for each child up to the age of fifteen). This family allowance should take the place of the complicated and irrational children's allowances under the income-tax law.[1]

(4) On the abolition of the income-tax allowances for children, the scheme for the deduction of income-tax based not on the wages of a previous period, but on the amount of cash earned in the week, should be reconsidered by the Treasury.[2]

(5) The present system of "post-war credits" for income tax, or "deferred pay" as it is sometimes called, should be extended on "compulsory savings" lines. The law now provides that any additional tax paid for 1941–42 (or after) by reason of the cuts in allowances and the reduction in the tax exemption limit should be "recorded year by year and credited to the individual as soon as possible after the end of the war". This is, in effect, a measure of

[1] The White Paper (Cmd. 6354, May 1942) estimated the cost of a 5*s*. allowance for all children under 15 at £125 millions a year, but omitted the saving if children's income-tax reliefs were abolished.

[2] The only mollification allowed in the Budget of 1942 was as follows:—In seasonal industries the five summer months now rank as one-half of the year for tax purposes and the seven winter months as the other half (or vice versa). The interval between the end of the period of assessment and the beginning of the period of payment was extended from three to four months, which caused a non-recurrent "tax holiday" in July 1942.

forced loans or compulsory savings, and it can be extended quite simply to tie up whatever surplus buying power now exists. As the supply of goods available for consumption diminishes, so the rate of deferred pay should increase—by agreement between State and Trade Unions.[1] The wages clerk, acting as an agent of the State, would hand out each week to every worker (1) cash, (2) a receipt for income tax paid, and (3) a deferred pay credit.

(6) The basis of the national wage charter, under the conditions of a State war-time lease of the entire capital of the country, would be a contract between State and worker, guaranteeing his basic wage and his working hours, and requiring him to work at the State's discretion in any factory or town where his services can best be used. This "direction" of labour by the State under a national wage charter is very different in principle from the present compulsory direction of labour into factories working for private profit. Would it not appeal to the workers as an honourable and patriotic undertaking for war, as opposed to the present disagreeable compulsion for private profit and enterprise?

(7) Works committees would then be made compulsory, but, to avoid the waste of time which is inherent in all committees, unless they are efficiently run, the terms of reference should be carefully confined to the points at issue—the speeding up and cheapening of production, discipline, the improvement of working conditions (canteens, rest rooms, crêches for children and so on). In short, discussion of politics or war aims should be barred at committee meetings.

(8) As soon as these wage agreements are negotiated and the rates fixed for the remainder of the war, the cost of living can be stabilised, or, rather, an "iron ration" can be stabilised based on war-time needs, without the frills and fancies which are now unobtainable in the shops. The Government will, of course, have to go on subsidising certain industries, such as agriculture, flour-milling, sugar, railways, etc., if the "iron ration" is to be stabilised for the rest of the war. But the cost of this subsidisation should be taken into account in assessing the rental or hire payments to the peace-time owners of the industries concerned, so that if they are now benefiting too handsomely at the ex-

[1] In Russia Trade Unions "agree" with the Government the allocations for wages according to the supply of goods and services.

pense of the taxpayer, they should be made to foot part of the bill. The "iron ration" should be worked out as a war-time standard of living only—not as a peace-time standard. If we are to tighten our belts for the rest of the war, we shall all want to have a beautiful vision of the more appetising dinner-tables of our peace-time homes.

Equalising Wages and Salaries

You will appreciate, tolerant reader, that it is not the purpose of this book to work out every administrative detail, but to establish the principles of the scheme. But perhaps I should comment briefly on the terms of reference of these wage negotiations. One of the objectives of the national wage agreements would be to try to establish equal pay for equal grades of work. There are at the moment too many anomalies in the wages system, which is not surprising, seeing that the Government has no wages policy at all. It is really a matter of chance whether wages have increased much or little in any particular industry. The Amalgamated Engineering Union, you will recall, protested against the fantastic wages being paid in the aircraft factories to butchers, bakers and the like who do not know one end of a lathe from the other. Although the engineers recently got an extra 5*s.* added to their basic wage, the weekly time rate in London for a skilled worker is 86*s.* 5*d.*, as compared with a starting point of 97*s.* 6*d.* a week for a London 'bus driver. In the Birmingham area the skilled engineer gets 81*s.* 6*d.* and the lowest grade 74*s.* a week, but in a machine-tool factory I recently saw in Northamptonshire the skilled workers on piece-rates were making from £10 to £14 a week. Even the Government White Paper on "Price Stabilisation and Industrial Policy" admitted that "there might be proper grounds for adjustment of wages in certain cases, particularly among low-paid grades and categories of workers".

The run-away tendency in wages has been most conspicuous in the case of boys under military age. A protest was sent to Ernest Bevin by a Conference of the Lancashire Chambers of Commerce in November last, which contained these examples of the monetary demoralisation of our youth:—

> An eighteen-year-old fitter's mate earning £13 a week.

Boys of thirteen and fourteen earning £3 and £4 a week.

A youth of sixteen paid £5 11*s.* a week.

A boy of fifteen earning 22*s.* 6*d.* was persuaded to leave, and was given £4 a week on Government work.

A young girl typist earning 35*s.* a week was tempted to enter a Government factory for £3 15*s.* a week.

A private factory advertised for an untrained typist at £4 a week.

It is well known that boys of fifteen and sixteen have been bid for up to £6 and over a week by Government building contractors. Lads have even broken their apprenticeship in the building trades to seize the higher wages they can command as labourers—a monstrous practice in view of the coming shortage of skilled workers. What can these children spend their fabulous earnings on? Most parents cannot be keen to see their children demoralised by Mammon, but I have been told on expert authority that Trade Union leaders would not support a reduction in juvenile wages because their own children would suffer!

So, in these national wage agreements, there will be some scaling down, as well as some scaling up of existing wage rates. The introduction of family allowances will, however, protect and better the married men. If family allowances are the rule (on a more complicated scale) in such "backward" occupations as the army, surely they can be introduced into the more enlightened occupations of our civil life.

With the introduction of family allowances and the stabilisation of an "iron ration" for war-time living, the workers should feel better off and more secure, being guaranteed against any inflationary attack upon real wages for the rest of the war. And the application of a minimum wage to sailors, soldiers and airmen (less a flat-rate charge for maintenance and clothing) should convince the fair-minded population of these free-thinking islands that the Government is at last believing in, and enforcing, a measure of social justice for a democracy at total war.

With the stabilisation of wages should go the stabilisation of salaries. When the cost of war-time living has been pegged there will be no hardship in this counterpart of my plan for labour. I see no reason why there should not be

negotiated a scale of salaries applicable to industrial management based on the principle that there should be equal pay for equal industrial rank. Maurice Edelman, in "Production for Victory, not Profit",[1] recommends that all salaried workers should be classified into salaried groups just as wages are classified. This is possible, but I think we must be on guard against plans for equalising everything and everybody. In character and worth, and economic usefulness, people are just not equal. They are not born so; they do not live or die so. But equal opportunities should be given to everyone to rise and, in wartime especially, unearned salaries or salaries inherited or acquired by nincompoops through influence or the power of money, should be stopped under the Defence of the Realm Orders.

Compulsory Savings

A final word on compulsory savings—applicable to both capital and labour. The system of "post-war" credits for income tax which has now been established should be extended to every citizen. As and when the Government requires more savings, it should mark up the rate of income tax and then credit the individual with a "post-war bond" to the amount of the increase.

The mechanics of compulsory savings are simple. Each insured worker would have a deferred-pay card, which would be stamped by the employer. For other tax-payers the mechanism would be the same as for income tax. No new machinery either for assessment or collection would be required. The individual could choose with what institution his deferred pay should be deposited. He might select his Trade Union, his Friendly Society, his insurance society, or, failing any preference, the Post Office Savings Bank. Whatever was accumulated as deferred pay would be blocked until the end of the war, except insofar as these savings could be drawn upon to meet a special urgency, such as illness or accident. After the war the release of these credits should be spread over a period, instead of being cashed in one lump sum. It would be stupid to release them before there was a sufficiency of consumption goods in the shops to meet the demand.

The extension of compulsory savings would end—thank Heaven!—the expensive appropriation to the National

[1] Gollancz: Sept. 1940.

Savings Campaign of £800,000 a year for advertising daily appeals to our lower nature. But this would not stop voluntary savings. Canvassers for savings could still work in factories and shops, and the members of the Stock Exchange would still be soliciting savings from wealthy capitalists and institutional investors.

And to carry the new economy through to its logical conclusion—no capitalist should be allowed to spend on consumption the accumulated savings of his happy and profitable past. This might be secured by a wide extension of rationing, or by prohibiting sales of securities or land except under licence for re-investment (which is already being done in the case of aliens), or by blocking individual banking accounts. But this brings me to the nationalisation of the banks and the other vital services of total war.

CHAPTER TEN

STATE CONTROL AND MANAGEMENT

"The Government will not be timid or half-hearted in taking control of any property or undertaking to whatever extent may be found necessary, if by that means the fuller development of the war effort is realized."—SIR JOHN ANDERSON, Lord President of the Council, December 3rd, 1941, in the House of Commons.

"There are no suggestions, however revolutionary in character, to which I will shut my mind."—OLIVER LYTTELTON, Minister of Production, March 24th, 1942, in the House of Commons.

HEAVEN FORBID that I should recommend an inordinate increase in the bureaucracy. The great wen of Whitehall horrified me for a year when I was at close quarters with it. I have met no one competent to judge who has said that Civil Service administration is fit to run a business. I have seen incompetent and harmful men retained in their jobs because they cannot be sacked under the canons of Civil Service law. I have seen the stupid, blind hand of the Treasury holding up the efficient organisation of an office because of its out-of-date conditions of pay and service. I have seen Committee after Committee wasting time, stupefying thought, stultifying action. As I have said, the Committee system is an ideal one for avoiding individual responsibility or excusing individual effort. That is why it flourishes like a green bay tree in the sheltered walks of the Civil Service. I

often wonder why Civil Servants individually appear so normal and intelligent when they live and move and have their being in mental institutions.

State Management

I do not therefore share the Socialist enthusiasm for State management just because the managers work for State salaries and not for private profit. When it is necessary in war-time for the State to manage an industry or trade, I would appoint at the head a Commissioner (a much cleaner title than Director-General, and one that corresponds with the Russian Commissar) specially chosen for his organising abilities and his enthusiasm for the job, but absolutely unconnected by family or money ties with the trade he has to manage in the public interest.

The State Commissioner should be made to render account to a Board of Four representing the four dominant interests—capital, labour, consumer-taxpayer and Government. He should report through this Board, not through the Permanent Higher Civil Servant, to the appropriate Minister who is responsible for the Commissioner's work to Parliament. The Board of Four should not have the right to sack the Commissioner: this power should remain only with the Minister. If I were the Minister, I would let the Commissioner hold office as long as he was efficient and inventive, and I would sack him as soon as he stopped having new ideas and became mentally addled. And I would see to it that he should be allowed to run his office independently of Civil Service or Treasury rules.

If a nationalised industry is to be run as a business, it will have to pay business salaries and conduct itself in a business-like way. We understand this authoritarian form of democratic control quite well in this country. If we scrap the Civil Service Committee system and make use of the all-powerful Commissioner, subject to this democratic form of control, we shall make a success of State management. We shall be able to inspire good men to manage the key jobs. In fact, we shall be able to keep things moving.

In the production debate in the House of Commons last December the Socialist members seemed to make a fetish of nationalisation, which they demanded for the munition trades, for coal and for transport. Nationalisation—or my proposal for a State lease—is a question of

principle, of equity and of morale. Nationalisation will not in itself cause any industry to be operated more efficiently: indeed, it would cause the reverse if the Civil Service type of administration were to be clapped on.

There is no mystique in State control. Some shell-filling factories managed by the State are much less efficient and much more costly to run than those managed by the old-established armament firms. Why? Because the State has to import raw, untrained labour from the surrounding districts, set men and women to work without any experience of factory life, and very often appoint second-grade managers to supervise them. But the old-established armament firms have an experience and a tradition behind them built up out of years of arms-factory control. Moreover, they can afford to pay the salaries required to catch the first-grade managers, which the Treasury stupidly refuses to do. That is why, I imagine, the Ministry of Supply recently handed over a number of State-owned arms factories to private control for a management fee. It would not be so renegade if it had a national pool of managers to draw upon and if the Treasury dropped its silly ban on paying industrial salaries at more than Civil Service rates.

Now, my proposal for a State lease of the entire national capital opens up the way to a solution of this problem of State management. The State has just taken a lease of the railways, but I have not heard of any railway managers being sacked by the Railway Controller at the Ministry of Transport. Presumably the Controller has found them to be efficient: otherwise he would have asked the Minister to sack them. In the same way, when the State has taken a lease of all the iron and steel, coal and engineering capital in the country, which will turn each employee in these industries into a servant of the State, not of private capital, the Government Commissioners responsible will not turn everything upside down. They will, of course, have the right to sack incompetent managers and appoint new ones. But until they have had time to make their inspections they will, I imagine, leave operations in the old hands, except that the managers or managing directors will report not to the private boards of directors but to the appropriate Commissioner's office.

The old boards of directors, which many Socialists would like to annihilate out of hand, will continue to hold

office merely as trustees for the shareholders whose capital is now leased to the State. They will have a trustee-rentier job to perform, for they will receive the fixed rentals or dividends from the Treasury for distribution in full or in part to the shareholders. But to eradicate the evil of dual allegiance the Government should make it illegal for any one to serve both as a member of a private board of directors and as a State manager.

If the Government appealed personally to the old managing directors, or director-managers, many of whom are able technicians and executives, to serve the nation as State managers for the remainder of the war—until victory is won—do you imagine that they would not be patriotic enough to respond? Patriotism is not dead in the business world, although the Government does its best to kill it. And let us remember that the State can honour its good and faithful servants.

A National Pool of Managers

Good managers are, of course, becoming as rare as good generals. The Government is not likely to appoint them "out of hand": it will only be able to appoint them out of a pool. And there must be a real pool—not just a voluntary Central Register at the Ministry of Labour. The Government must have power to move skilled management from one works to another, as the need arises. No vested interest should have the power to stop the transfer of a clever manager from the factory which formerly employed him to another where there was a greater call for his skilled services. And no vested interest should prevent the sacking of an incompetent manager from his old job which he held or had secured through nepotism or by the power of money. Those who have worked inside the industrial war machine will agree that this reform is more likely than any other to bring the national output of munitions up to its maximum. We have it on the authority of Harold Whitehead, an industrial research expert, that good management could add 10% to the output of munitions, without additional labour or equipment, just by tightening up methods of factory control and routine.

Management is a skilled job, and the State can train men for it as private capitalists have done. Good works managers come from good foremen, and good foremen

from good workmen. Here is the opinion of the chairman of an important group of factories whom Harold Whitehead quoted in a radio talk in December last:—

"Instead of ten factories we now have between fifty and sixty. This required that number of superintendents and some 350 foremen. We selected the most likely foremen and made them superintendents of these smaller units. We told them what the job was and gave them their chance. They have measured up to it. We turned the more capable workmen into foremen. To help them we have instituted the training-for-foremanship course organised by the Ministry of Labour. This, combined with the gumption and practical knowledge of the men, has done the trick. There's plenty of brains in our factories. Any firm which complains it can't get good foremen must be blind to its own labour. Management is needed, but no manager can make a success without good foremen and good works supervisors. And here's something I wish every management would do. Get a proper works committee together, and get the workers' help on production problems."

The Boundaries of State Control

I am not suggesting that State control of the war industries will be adequately performed by Commissioners who go round sacking incompetent managers and appointing efficient ones from a Government pool. The whole of industry and trade will have to be reorganised in varying degrees for the more efficient prosecution of total war. And this reorganisation, in my opinion, should follow the following pattern.

Under its war-time lease of all the capital resources of the country, the State should, first of all, take over the management as well as the control of all transport (road as well as rail), coal, iron and steel, munitions and engineering companies except the very small, sub-contracting firms, which may be left to carry on under private management, subject to general supervision and direction.

Secondly, the State should manage, as well as control, production of textile and household consumption goods.

Thirdly, the State should take over the functions of wholesale middlemen in the trades where it is managing production.

Fourthly, the State should control, but leave management in the old hands in the remaining cases, mainly the retail trades and services, giving general directions to them by Departmental Order.

Professional men should be left outside this scheme of war-time control, except that the Government would have power to close down (and compensate) such redundant services in war-time as advertising agencies.

The division of these State functions administratively would lie between the new Ministries of Production, Supply, Transport, Power and Fuel and Board of Trade.

A Ministry of Production which Produces

The new Ministry of Production should really produce. Production for war is simply a question of organising the maximum potential of man-hours. A real Minister of Production should therefore be a production engineer responsible for producing *all* the munitions of war. The Ministry of Aircraft Production, merchant shipbuilding and the arming of merchant vessels should all be merged in his office. The Minister of Production would then appoint Commissioners for each arm of production, but these specialists would be co-ordinators at the top at the Ministry's headquarters. For the efficient execution of the Ministry's national programme there would have to be decentralisation through the Regional Controls (executive, not advisory), and the Regional Controllers should have power to allocate contracts (not just supervise) and use as a group all the plant and machinery belonging to big combine, or little firm, in their regions.[1]

The new Minister of Production should be responsible for his labour. Now, the real problem of man-power, as the Select Committee on National Expenditure has reported, has never been faced by the Coalition Government. It is the problem of the distribution of man-power as between the Service and the Supply Departments. There is a good deal to be said for separating the National Service Department from the Ministry of Labour, of which it is now a part, and putting it under a War Cabinet Minister empowered to deal with the man-power question as a whole—that is, with the demands of the armed forces as well as with those of industry. But this is a question outside the scope of my

[1] See the discussion of Lyttelton's powers on page 78.

argument in this chapter. I am only concerned to suggest that the new Minister of Production should be responsible for the practical side of his labour, for training the recruits for his factories, for providing adequate canteens—which private capital has so often shirked—and for setting up the crêches where the children of the women workers he requires can be properly looked after and fed. If the Production Minister is to win the good-will of his workers, he must be responsible for their welfare. If he wants to increase output, he cannot delegate that vital welfare work to other departments.

When the workers realise that the Government is responsible for their well-being and pay, that their managers are State servants liable to be sacked by the Minister if they are incompetent, that production or works councils of managers and men are made a compulsory feature of every factory and that their daily toil is not for private profit but for the national defence and safety, do you not think that they will work with a new will and a tremendous zest?

Ministries of Supply, Fuel and Power

The Ministry of Supply would then become a real and proper ministry of supplies. It would supply the raw materials, the iron and steel, the metals, the chemicals, the rubber and the asbestos which the Ministry of Production requires. The Minister would have to be a super-organiser, not connected, as Sir Andrew Duncan is, with the vested interests he controls. Indeed, his first task would be to change round the Controllers who now control the trades which they owned or managed in peace-time. He would then appoint a non-metal Commissioner for Metals, a non-steel Commissioner for Iron and Steel, a non-timber Commissioner for Timber, and so on.

It would be helpful, I think, if there were a new Ministry created for Fuel and Power, which would take over coal from the Mines Department of the Board of Trade which has made a mess of things, and decentralise itself through its various Commissioners—one for Coal, another for Petroleum, another for Electricity and another for Gas. Those responsible for coal and petroleum would have to be tough. The Commissioner for Coal would have to amalgamate and operate coal-mines which have never before been considered as a regional group, and he would have to deal with managers who would be continually

"got at" by hostile ex-colliery owners. The Coal Commissioner should have a thick hide, a ruthless love of efficiency and the heroism of a V.C.

I need not, in a discussion of the principles governing the administration of the war-time State leases, exhaust the list of Government Commissioners. Exactly which Commissioners should come within the purview of the Minister of Production, which under the Ministry of Supply, which under the Board of Trade, which under the Ministry of Fuel and Power, and so on, is not for me to suggest. That is the sort of question a Civil Servant could answer better than I. But each Commissioner would have to decide, when he took up his job, how far to allow the former managements to operate under his general supervision and how far he would replace them with Government men. In either case the managers would be reporting, through the Regional Controller, to the State Commissioner. There should in any case be great flexibility in the Government controls.

State Control of Consumption Trades

To administer a lease of the consumption trades the Board of Trade would adopt the same technique—that is, it would appoint Commissioners having no personal contacts with the trades they control and give them powers to manage production and distribution. The Commissioners would decentralise as much as their munition-trade counterparts, and their Regional Controllers would have the right to appoint Government men as managers if the old managements did not play the game and accept the new order for total war.

On the manufacturing side it will surely be a relief to the clothing, pottery, cutlery, hardware, furniture, bedding, carpet and cosmetic industries to receive direct orders from State Commissioners as to how many garments and of what type, how many cups and saucers and glasses, how many pots, pans and kettles, how many carpets, how many mattresses and pillows, how many lipsticks and so on their factories are to produce in the year for the civilian population. In total war only the Government can know these vital trade statistics: the poor private manufacturers cannot even guess. The present confusion of Board of Trade orders for the indirect control of these trades must cease in the interests of the sanity of the manu-

facturers and the efficiency and economy of their works. Civil Servants with unrationed ink and crossword-puzzle minds should not be expected to control trades of which they are admittedly ignorant.

An enlightened Government with "total war" powers and a lease of national trade would surely appoint a Commissioner for each of these domestic trades, and leave him to direct the new State managers as to how much plant they must operate and what goods they must turn out to meet the essential needs of you and me, the civilian population. The Board of Trade seems to be groping towards this solution for the clothing trades, in a roundabout, devious and painful way, for it has appointed a Director-General of Civilian Clothing. But the present cultured holder of that office, Sir Thomas Barlow, would, I think, be the first to admit that the powers delegated to him by the Government do not do justice to the magnificence of his title. He has not even the power to prohibit the luxury clothing trade. A new Commissioner of Clothing, under my plan, would requisition all the stocks of cloth and clothing in the country, take over the management of the clothing manufacturers and order the factories to make only "utility" clothes.

And if you were to read the latest Board of Trade Toilet Preparations Order, you would probably come to the conclusion that, in an attempt to stamp out the black market in cosmetics and to check the growth of a new trade in "unbranded" toilet preparations, the Government has taken every step except the simple short-cut of appointing a Commissioner of the Toilet, giving him the "inside" facts and telling him to decide, in the light of them, how much lipstick, rouge, foundation creams and cleansing creams the female population should be allowed to consume in order to maintain its morale in war-time, and what factories should be open to manufacture them.

Eliminating Middlemen

The Government Commissioners for the domestic trades, whose production is taken over, would have to close down the redundant wholesale firms which are now using up precious labour and adding unnecessarily to the cost of goods by their commissions. Wholesalers and middlemen in peace-time may perform the useful function of acting as a cushion between supply and demand. They will speculate

on the future of demand and they will order ahead more goods or less as their instinct or intelligence moves them. Both manufacturers and shopkeepers may derive some benefit from this speculation and may regard the "cushion" as being worth its luxury price. But in war-time it is clear that wholesalers and middlemen cannot perform their "cushion" functions. They cannot reasonably speculate, for only the Government knows the facts. If they do speculate, they may be unwittingly sabotaging the war economy.

Thus, the activities of wholesale-middlemen in war-time become dangerous. They tend to inflate prices with their commissions without offering a real service to the market. Indeed, when the domestic trades were first restricted by quotas the wholesalers actually created a market in Board of Trade "quotas", and when their commissions on "quota" sales began to raise the price of restricted goods by anything from 20% to 100%, the Government had to prohibit this inflation under the Goods and Services (Price Control) Act. Moreover, wholesalers tend to distribute supplies improperly, giving favours to shopkeeper friends in evacuated areas who should be taking much less than their normal quotas. Thus, the less scrupulous among the wholesaler-retailers tend to become the channels of supply for the racketeers. Indeed, the very existence of wholesalers or middlemen in a period of national siege inevitably leads to black markets and unnecessary commission-hunting. In the interests of the national safety they are best eliminated and transferred to more useful work. Compensation would, of course, be due to the honestly established firms out of the State National Trading Surplus.

If you are still not convinced that the existence of wholesale-middlemen stands in the way of an orderly, economical and safe distribution of supplies in war-time, consider the sad story of wholesale stocks lost in the bombing raids. It was the practice among the textile wholesalers to keep huge stocks at their London warehouses. In a faint, half-hearted fashion, the Board of Trade had *advised* wholesalers to distribute these stocks to retailers in order to lessen the risks of air-raid destruction. But the custom of the wholesale trade was against it. The retailers, they feared, might lay a claim to a first call on the stocks which they might be storing for wholesalers.

Indeed, dispersal would have involved the wholesalers in extra transport and storage charges. The result was that millions of pounds worth of textile stocks went up in flames one night in the City of London. About the same time huge stores of tobacco, tea and textiles were destroyed on the Merseyside, all because the Government dare not interfere with the vested interests in distribution.

Concentrating Shops

Finally, the Commissioners of the domestic front would settle the problem of concentrating the retail trade in less time than it takes the Government Retail Trade Committee to call its members together for a meeting. It is ridiculous, in this third year of war, to be able to go into a town and find in a single shopping street two chemists, three clothiers, two boot and shoe shops, two ironmongers, and so on, all duplicating staff, all duplicating petrol waste and transport, all adding to the inflation of commodity prices. There are still about 300,000 non-food shops in the country struggling to do one quarter of the trade they were organised to do in peace-time. All that the Government (vested interest) Committee can suggest is that they should not all hang on until they go bankrupt, but should enter into temporary war-time "marriages". Better to die in unholy wedlock, I suppose, than single! If proper compensation were offered to them, as the National Trading Surplus from the State leases would allow, there would no longer be such bitter opposition to retail concentration from the small shopkeepers. Shop managers should be pooled, one shop should be made to do the work of three, redundant staff should be released for vital war work and the sight of two or three rival shopkeepers serving from behind the same counter as a war-time measure of co-operation, would go far to convince the public that this nation of shopkeepers was at last bent on waging total war.

State Management of Banking

I have left banking to the last, but in a total war economy it is really the first of the non-munition trades which calls for State control. War-time banking cannot be left to the general supervision of a State Commissioner for Banks. It has to be nationalised lock, stock and barrel. As I cannot imagine that banking will ever again be left

in private hands, there is a case for buying out the shareholders of the Bank of England and the joint stock banks immediately.

I always feel that our "guilty" politicians have had unfairly to answer for some of the crimes of the "guilty" bankers. Montagu Norman has now ruled over the City of London for twenty-three years. He was, I suppose, largely responsible for the ill-advised return to the gold standard in 1925. He has, according to his critics, invariably been an opponent of the cheap-money policy, and for a brief time just before the outbreak of war he succeeded in reversing it. In the new issue boom in the nineteen-twenties, when financiers went mad with other people's money, he allowed the City to overlend to German States, cities and utility companies, and he actually pursued a policy of financial appeasement to Germany until the outbreak of war. In these days of grim realism, Montagu Norman appears as a picturesque phantom from our guilty past. Yet he still rules the City of London and controls the banking world. Indeed, he has made of the Bank of England a sort of papal court, with himself as Pope governing the lives of City people absolutely through some traditional divine right of financial mystery. It is time that this strange man, whom Low has immortalised with trilby hat and Mephistophelian beard, be retired with all due honours. It is time that the Bank itself should be cleansed of the Montagu Norman atmosphere which pervades its departmental work like the code of a Secret Service.

I do not know whether at this moment Montagu Norman has the Treasury in his pocket or whether the Treasury is giving orders to the City Pope. There is always a fencing match in progress between the lay and "spiritual" powers in money. But I do know that it is time that the public gave orders to the banking world and exerted its sovereignty in the interest of the national safety.

A simple Act of Parliament would do the trick. An exchange of Government stock for Bank of England stock and for the shares of the joint stock banks is an easy transaction to negotiate and arrange. The clearing banks are today so overloaded with holdings of Government bonds in their portfolios—more than half their total resources is now invested in Government securities—that

their shareholders would not be undergoing any violent change by holding Government stocks direct. The general managers of the Banks would, I imagine, utter sighs of relief when the exchange of stock is completed, for they are already nervous of their Government load.

The immediate purpose of the State control of the joint stock banks is to rid the war output of the incubus of bank interest charges which are piling up day after day and adding to the inflation of all commodity prices. It is not enough for the Treasury to control the rate of interest and bring the long-term rate down to 3% and the short-term rate down to 1%, if it allows the banks to go on charging borrowers 5% compound interest on their overdrafts. The business of banking today should be regarded as a war-service to industry, like transport or electric current. Should not credits be issued by the State banks to contractors and traders up to the value of the goods and services produced for war purposes? Should not the borrowers merely pay a fee to cover the expenses of the banking service? In other words, should not banking become a public war service operated for the community at cost, without any profit at all and without being loaded with the obligation to pay dividends to shareholders? Banking would then become the handmaid of industry and not its master.

There would be no difficulty about the national control of the joint stock banks on the score of management. The managers would be glad to serve the State, perhaps more than their existing boards of directors. I have a strong suspicion that the bank directors have long been sweating their managers and their clerks in the interests of their shareholders. Bank managers who are working long hours on national service have never received adequate compensation because a general rise in bank wages would endanger bank share dividends. The State would not have to find managers from outside for the administration of the joint stock banks. The able general managers, who do the job today, have all been reared from the rank and file, and no doubt there is fine talent still to be promoted from the local bank managers.

What would become redundant, of course, under State control would be the boards of directors. Hitherto the directors of the joint stock banks have been chosen for

their possession of big banking accounts or because of their skill in "wangling" accounts from one bank to another. They have not been chosen for their abilities in banking. Indeed, the highly technical profession of banking is not picked up on the playing-fields of Eton or in the board-rooms of big business. But it can be mastered by any mathematical brain trained in the Board Schools. Banking is a fine career for any able "black coat" who wants a quiet life after this war and can tolerate a deadly monotonous routine. But there will be no room for guinea-pig directors with thousand-a-year salaries.

* * * * *

That, patient reader, is how I think the administration of the State leases can be made to work. Are you not confident that under this new system the national output of munitions of war will be brought up to maximum? The workers will be given a new "kick" to their toil at the benches, for they will become State servants and partners in the war enterprise. Will not the State managers work as efficiently for their new masters as for their old? I see no reason to question their patriotism.

There remain the former private owners who, as managing directors, used to put their backs into the making of profits. Will they lose their incentive to work hard under a State lease? Not if they are patriots and want to win the war and be honoured by their country. But if there is any doubt, let us introduce a system of bonus for masters as well as for men, which will give them monetary rewards based on output instead of profit. Let us pay by results. And if there is sabotage, let the punishment fit the crime. Saboteurs, says the Solicitor-General, should be shot.

PART VI

RECONSTRUCTION

CHAPTER ELEVEN

THE POST-WAR PROSPECT

"In 1919 public opinion and political opinion were determined to get back to 1914 by scrapping at the first possible moment many of the controls. . . . I do not notice today the same enthusiasm to get back to 1939."—J. M. KEYNES in a broadcast, March 1942.

"Hard Times Ahead."—Latest pamphlet by SIR ERNEST BENN.

A DOG, they say, always returns to its own vomit. But Great Britain is not a dog, but a lion still, even if it has had its tail badly twisted. The lion has spewed out abuses during the war, and it will not go back to them in the peace that follows. Today we revolt against the unclean things of the old capitalism. Fair-minded people will say that if we can improve our economy to increase the production of munitions of war—in other words, our standards of destruction—we can improve it also to increase our production of worth-while goods—in other words, our standards of living.

Besides, do you suppose that the fighting men back from the war, who have been risking their lives for our safety, will be content to see themselves economically dispossessed, to take their places in the queue of unemployed when the first slump overtakes the post-war boom? Do you believe that these millions of ex-service men with no economic prospect before them will be willing to reinstate the old capitalism with all its insecurity for labour, its recurrent slumps, its indecent inequalities of wealth and its miserable standard of living? No, we cannot go right back. We cannot have our Fabian socialists, like G. D. H. Cole, writing, as he did in the first year of the war, that "from the standpoint of the twentieth century Great Britain stands for an obsolete, rentier, imperialistic capitalism, essentially uncreative and obstructive". This uncreative and obsolete capitalism died in Great Britain on September 3, 1939, and will never be restored. Winston

Churchill, if he tried to restore it, would be swept from office.

There is another good reason for not going back to an unreformed capitalist system. The economic problems at the end of the war will be too complex to be handled by the old-fashioned economic or monetary controls. But before we take a look at them, let us call to mind the pre-war—or shall I say the historic—position of Great Britain in the trading world—just in case history repeats itself.

Historic Britain and After

Everyone knows that we used to import far more goods than we could pay for with the goods we exported. We could afford to do so because we had other foreign income to draw upon. We had about £4750 millions invested in foreign countries from which we drew dividends or interest. We had a great merchant navy which earned good profits by carrying a large part of the world's trade. And London did a profitable short-term financial business in international trade bills, insurances and bank loans. In normal years, after paying for the excess of imports over exports, which called for about £400 millions a year, we still had a large sum due to us from the rest of the world. In other words, we were a fine creditor nation.

But the position will be very different after this war. Before the Lease and Lend Act was passed we had to sell the bulk of our liquid investments in the United States and Canada. We have still over £2000 millions invested overseas, but we are now incurring debts abroad of much greater size. Our shipping, heavily reduced by Nazi bombs and torpedoes, will no longer be adequate to act as carrier to the world's trade—until we rebuild it. At the same time we shall need to buy from abroad great quantities of food and raw materials and special types of machinery to effect a rapid change-over from making swords to making ploughshares. We shall, therefore, have for certain a debit balance on our international account. We shall be striving to increase our exports in order to improve our buying power abroad. (Let us not talk of subsidising our exports if we wish to avoid the repetition of an international trade war.) We shall be forced to under-consume at home, and if we do not increase our exports by at least 50%, the experts say that we shall starve.

Generally speaking, international trade will be upside down. Foreign purchasing power will for a time be non-existent and the old mechanism of international loans will be unworkable. The rate of interest will have lost its force to stimulate, for it will be meaningless in a world where security of money loans will be called in question. The exchanges will be in a state of chaos. The relationship between the £ and the $ will depend, of course, upon the relative price-levels of the two countries. It may be that the present official rate of $4 to the £ will be held, but if American prices go on rising as fast as they have begun since her entry into the war, it may be that the £ and the $ may be able to look each other in the face at their old parity. But that is only one item in our international account. We shall have to grope towards a new place in world trade. We *shall* have hard work to avoid starving.

Brave New World

But how can we look forward to a resumption of our old technique of trade until we know the political environment? Who is going to win the war—Russia or the United States? If Russia rolls back the German armies to final annihilation inside Germany, if Stalin settles his score with Hitler at the Fuehrer's palace in Berlin, will the Soviet system be grafted on to most of Europe? If the American fleet and air force finally bring Japan squealing to her knees, will American exporters be clamouring for Asia as a market? Whatever part Great Britain plays in the final victory, it is possible that she will be called upon to hold the balance in the post-war world between a Communist Russia, all-powerful in Europe, and a Capitalist America, all-powerful throughout the East. When it comes to delicate negotiation on this international plane, so much depends upon the human personalities. Will Roosevelt be presiding at the conference table as American President, or some miserable capitalist reactionary? Will the wise and cunning Stalin be representing Soviet Russia, or some wild international revolutionary? Will Winston Churchill be standing for a "traditional" England, or the "sound money" school, which means labour sweated to provide cheaper goods for export, or will some younger national figure be standing out for a new "common wealth" order?

I cannot answer these questions. I can only express my hopes and my faith. I believe that a resumption of trade

war will mean a recurrence of national war in a still more horrible shape in another twenty or thirty years. I believe that real and lasting peace can only be founded upon a "Common Wealth" of nations in which there is a live consciousness of the brotherhood of man. I believe that this dream is not likely to be realised until the nations curb the aggressiveness of the great capitalist cartels and pursue an economic policy in which the common wealth of communities is exploited in the interests of the people.

The Atlantic Charter

But for the moment the only facts on which we can base our hopes for a saner and more humanitarian world are the clauses of the Atlantic Charter which Franklin Roosevelt and Winston Churchill signed in 1941 on board a battleship. It was a very vague Charter, written in the rather florid nineteenth-century style of Churchillian journalism, but Clauses 4 and 5 deserve repetition as "common principles in the national policies" of the United States and Great Britain:—

> "*Fourth:* they will endeavour, with due respect for their existing obligations, to further enjoyment by all States, great or small, victor or vanquished, of access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity.
>
> "*Fifth:* they desire to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement and social security."

These clauses can mean so much and so little. It all depends upon the complexion of the Governments in power in the United States and Britain when the time comes to implement the Charter. What does it mean by "access on equal terms to the raw materials of the world"? Will the British Government give up its controlling interest in the Anglo-Iranian Oil Company and invite the oil banditry of the world to make a mess of its beautiful Persian oilfield with thousands and thousands of competitive oil-drilling engines? Will the Dutch Government open up the mineral and vegetable treasures of the Dutch East Indies to capitalist exploiters from America? Will the American Government abolish its tariff barriers and allow foreign traders to sell their goods freely in the great American market?

These questions do not appear to warrant any optimism. If Roosevelt and Churchill had in mind only some moderate lowering of the tariff barriers and some form of joint exploitation of the colonial raw materials of the Great Powers, it does not go very far towards the ideal of "access on equal terms to the trade and raw materials of the world". And if some Powers foster capitalist exploiters and others engage in communist or socialist enterprise, how are they to combine in any form of joint development? And what are the exploited natives to say about it?

An Economic League

I cannot see any sense in Clauses 4 and 5 of the Atlantic Charter unless there is an Economic League of Nations—let us not repeat the mistake of a *political* League—which attempts to pool the raw materials of the world like some vast international cartel. The motive of a real Economic League would be service to mankind instead of profit. If every nation belonged to it, each Government would contribute to the League pool the balance of the raw materials it produced surplus to its domestic requirements. These surpluses would be taken by the consuming, importing countries at world prices fixed by the Executive Board of the Economic League. If the producers and consumers were jointly represented on the Executive Board, together with some "international" economists, there would be little difficulty in settling world prices. The oil combines do it already for the international oil markets. The International Tin Committee do it for tin, the International Rubber Regulation Committee do it for rubber and the tea control do it in a much more reasonable way for tea. If these international cartels can make a success of things for profit-purposes, why cannot an Economic League bring about an international pool of raw materials for the service of mankind? That, at any rate, would be the ideal to work for in the reconstruction of the trade of the world. On the basis of a raw materials pool an Economic League of Nations could begin to arrange a world distribution of manufactures, so that the great industrial exporters do not have to fight again for world markets.

Exchange and Import Controls

But I must leave these pleasant hopes and return to the unpleasant prospect of our immediate post-war world.

Clearly, we shall have to retain our consumption controls at home (rationing of food, clothing and household goods) for a year or so after the war and at the same time continue both our exchange and import controls.

The exchange control would in any case be required to circumvent any attempted flight of capital on the part of disgruntled or reactionary capitalists. I do not say that we could completely stop it. Without a postal censorship, which, of course, would have to be given up on the return of peace, the subterfuges and machinations of renegade capitalists would be difficult to discover. Nevertheless, the exchange control department of the Bank of England is very clever, and by this time has learned all the tricks of the escapists. Let us, then, assume that a State control or monopoly of exchange dealings would be carried on, if only to keep escapist capital in the country.

Likewise, the import controls which are now centred in the Ministry of Supply would have to be maintained for this period of crisis in our international account in order to regulate foreign purchases of raw materials such as cotton, wool, timber and pulp, leather, base metals, rubber, oil and foodstuffs. Moreover, State Import Boards would work in more fittingly than unco-ordinated private enterprise with an Economic League of Nations, or with any international plan for the equitable distribution of raw materials which may be practicable.

Exports, except to accord with an Economic League dictate, would not be controlled. Indeed, the State must abolish the Export Groups of vested interests now being protected by the Board of Trade.

Post-War National Debt

And consider the problem of the national debt at the end of the war. Before the war, the national debt was around £8,000 millions and the interest charge had been reduced to £230 millions a year. At a war-time increase of, say, between £2,500 and £3,000 millions a year the debt will be nearly £20,000 millions at the end of a four years' war. This represents in interest charges a levy of around £600 millions a year on the productive capacity of the nation, a tribute which we may be called upon to pay in perpetuity to the privileged few—the big and little rentiers, the banks and the savings corporations—which have invested their capital in Government bonds.

The official Labour Party have no solution to offer of this terrifying debt problem. Indeed, they would make it worse. They would nationalise a large number of industries and augment the national debt by issuing Government bonds to the dispossessed stockholders. They are, of course, conscious of the social objections to an increase in the rentier class, but they argue, first, that it is better to have a large number of petty rentiers than a small number of big rentiers; secondly, that they will issue Government bonds with heavy sinking funds or terminable annuities; thirdly, that they will tax the rentier classes to pay for their own amortisation. This argument reveals the dilemma of the Trade Union leaders. They dare not support their own socialistic extremists, who demand confiscation, who claim that a socialist party is pledged to destroy the political and economic power of the possessors of property. Being dominated by the Trade-Union bosses, who merely want higher wages, shorter hours, the closed shop and a seat on the board, the Labour Party are compelled to avoid anything which savours of confiscation, which is likely to cause a panic among the big capitalist employers, induce a general strike of money and cause a hold-up in the Government loan market. So they pray to God that the rentiers will not panic at being asked to pay more in taxes to provide for their own amortisation. No, the Labour Party and their Trade Union overlords have no solution of the national debt problem because they dare not indulge in logical or radical thinking.

The Tory Party would, of course, meet the bill by a gradual and persistent inflation of prices—the ideal policy for the monopolistic combinations of capital. In other words, they would lessen the real burden of the national debt by reducing the commodity value of the money in which it is payable. This is a dishonest policy because, while it does reduce the toll, in terms of productive effort, which the workers have to pay to the rentiers, it reduces also the real value of wages. There is always a lag between the rise in wages and the rise in prices in any inflationary period. But it is the orthodox policy for the Tory Party, for their bosses are the great employers of labour, whose profits rise faster than wages during a gradual inflation of prices. The only difficulty about this ideal policy for the business-man is that no Government in peace-time has the power to control or manage an inflation. When war-time

price controls are dead, when the movement in prices gets out of hand, and profits rise too quickly, the profiteers and the financiers will become greedy and over-expand their production plans, so that the final result will be a slump in prices and an economic crash. But let us make no mistake about it. If the official Labour Party does not win office, the inflation policy will be tried out by a big-business Government after the war, or perhaps by a new "national" Government in which the reactionary capitalist and Trade Union overlords come together for the joint purposes of power and plunder. Economic power will be further concentrated in the hands of the great industrial combines, and the working men will be further reduced to the status of factory villeins in a feudalised, monopolist industrial system.

The Old Trade Cycle

Even if there were no debt problem or any exchange problem or crisis in international trade it would be fatuous to restore a capitalist system which was never in peacetime under control, which could never apparently function without the devastation of a trade cycle or whatever you like to call the deadly succession of capitalist booms and slumps.

The trade cycle was the chronic, incurable disease of the capitalist system. In the last twenty years its ravages have been more and more violent, its social and political effects increasingly disturbing and disastrous. What caused it? Each and every crank had an answer. The money cranks said that it was due to the maladjustment between the supply and demand of money. But they mistook effects for causes. The nature cranks argued that it was caused by the incidence of good and bad crops. But they forgot that the trade cycle was primarily an industrial disease, that it was only after millions of industrial workers had been thrown out of work and were semi-starving that the agriculturists began to burn their surplus stocks, or dump their glut of coffee into the sea, or take other panicky and criminal measures to break the slump. The more practical-minded attributed the severity of the trade-cycle disease to the mal-distribution of wealth—to the accumulation of economic power in the hands of the large monopolist organisations. There was point in this accusation, because monopolist corporations invariably pursued a restrictionist

policy. But J. M. Keynes came along with a more scientific diagnosis of the disease which made some of the cranks look foolishly inexact and amateurish. The booms and slumps of the trade cycle, he said, were caused by a disequilibrium in investment.

If we accept the Keynsian definition of investment, we can have no quarrel with his diagnosis. The national income being derived from the production of consumption goods and capital goods, it was necessary, in order to maintain equilibrium, that the money incomes devoted to consumption should exactly purchase the consumption goods, while the money incomes devoted to saving or investment should exactly purchase the capital goods. But, of course, they never could. There was no power or control in the old capitalist system which ensured that these parts would balance. Savings were purchasing power put into an uncontrolled and irresponsible money machine which was privately operated by City financiers without social conscience or sense of responsibility.

Consider, for a moment, what sort of money machine it was. In the City of London there was every grade of issuing house, from the unapproachable to the disreputable. But, whatever sort it was, the issues they promoted would only be those likely to go well with the public and give the promoters a chance of snatching a quick profit on the Stock Exchange. In other words, the primary consideration of the market in domestic capital issues before the war was not the needs of industry, but the slickness of financial salesmanship. You may not believe it, but I can assure you that in the promotion of the average new company some 10% of the capital used to go in the expenses of the issue and 50% not in providing new capital for industry, but in making a present of cash to the promoters and vendors for the "purchase of existing rights". During a boom, issues would follow one another in quick succession—as many as the investing public would stomach. But during a slump not an issue would be made. No promoter would venture an appeal to the public, for no issue would "go" in the Stock Exchange sense. Thus, at a time when the employment of capital in productive enterprises might be urgently required to offset the rising tide of unemployment, the machinery of the capital market would break down. Obviously, no post-war Government with a planned economic policy could afford to leave the

domestic capital market to the vagaries of private financial salesmanship.

Savings, you appreciate, only become invested when they are actually spent on new capital goods. "The performance of the act of saving", wrote Keynes, "is in itself no guarantee that the stock of capital goods will be correspondingly increased." Capitalists might hoard their savings—they might even dis-invest when frightened by Socialist politicians at home or by warlike politicians abroad. Bankers in like circumstances might dog-in-the-manger their bank cash. And just as the capitalist system might under-invest at one time, so it might over-invest at another—that is, when entrepreneurs and company promoters, excited by the sight of excessive profits, became thirsty for loot and indulged in an orgy of new capital issues on the Stock Exchange, floating new companies in any trade where there was a chance to profiteer. In the full swing of a boom, labour would join in the game of smash and grab by demanding the higher wages which capital would always pay when its profits were soaring. If you really want to understand the origin of the trade cycle you must go behind the Keynes plan and all other theories: you must look into the human soul and contemplate its fear and greed. There lies the mental cause of this disease of the capitalist system.

Doctoring the Trade-Cycle Disease

Of course, the economic doctors used to prescribe various remedies for the malady, but they could never cure it. They followed generally two lines of attack. The first was to smooth out the variations in the demand for capital goods; the second was to make good artificially—by unemployment reliefs and consumer credits—the gap in consumer incomes which followed on an under-employment in the capital goods trades. Most economists favoured the first cure—the investment tonic as opposed to the consumer medicine—for they regarded it, when taken in time, as a preventive. Besides, the Government could directly influence activity in the capital goods industries by monetary policy, fiscal policy, and finally by investment policy, which is popularly called the policy of public works. Invariably the Government tried, first of all, making money cheap so as to induce new borrowers to come into the capital market for new capital enterprises. This did not always

in this book with the political. The economic are grim enough. We shall be confronted surely enough with economic chaos, muddle and collapse on the one hand if the national vote goes to the Trade Unions, or with an industrial feudalism, alternating between boom and slump, but starting with wage cuts to provide cheap goods for an export drive, if the balance of power swings to the Employer Unions. Or, again, if both agree to come together, we shall be faced with the Corporate State, which is the deadliest of all the post-war prospects.

So, if we are to avoid ruin and emerge from the chaos of war we have got to construct a planned economy. We have been planned against too long. We have suffered too much in the past from the booms and slumps of uncontrolled or misdirected private enterprise. We have been content too long just to go up and down on the economic tides. We have been exploited too much for profit and shareholders' dividends. It is time that we dropped exploitation and took up the idea of service to the community, making it our aim to secure continuous employment for our workers and a decent standard of life and culture worthy of our civilisation. It is nonsense to say that the old system solved the problem of production when about one-fifth of the population lived before the war under-nourished and not adequately clothed.

I do not suggest that we can isolate ourselves against economic attacks from abroad. We cannot control nature or direct the incidence of short and bumper crops. We cannot foresee new industrial inventions which may wipe out the capital invested in some out-moded product. But we can put up a stronger resistance to domestic epidemics or plagues from abroad if our own body economic is free from disease, and the first treatment we should give it, if I may prolong this metaphor, is the ordering of its diet, which means the State control of the national investment. I propose, as a practicable way of doing it, my scheme of "Common Wealth". But let me warn you. No amount of domestic planning can bring us economic salvation if world trade is not also planned, if an Economic League is not also established to pool surplus raw materials and arrange a world distribution of surplus manufactures. Believe me, "sound money", cheap labour, free trade and Sir Ernest Benn are not a practicable alternative.

CHAPTER TWELVE

"COMMON WEALTH"—A POST-WAR PLAN

"The essence of democracy should be a balance between the organising power of the State and the driving force of the free individual. We must foster both."—OLIVER LYTTELTON in a broadcast speech on April 26th, 1942.

"I should have thought that the question of whether the nationalisation of a particular industry was right or wrong had really ceased to be a matter of controversy even in peace-time. . . . That would have been determined on the facts. Private owners would have been paid reasonable compensation and that would be all. . . . As things grow to a monopoly the State always has to decide whether that monopoly must be publicly controlled or left in private hands."—ERNEST BEVIN in the House of Commons, December 4th, 1941 (Vol. 376, No. 11).

SUPPOSE MY war plan of a State lease of the entire capital of the country were, after all, accepted. It would be in accord with the evolutionary, as opposed to the revolutionary, way of making social changes in this country if this principle of lease were to be continued after the war, but in a reverse way—that is to say, if the individual, instead of the State, were to be regarded as the leaseholder. All that would be required would be a law—a simple Declaration of Rights—vesting the title to all capital in the State, and thereby making every private holder of capital a lease-holder or life-tenant.

It would follow that apart from the industrial capital which the State proposed to manage itself for the vital purposes of maintaining employment or economic equilibrium, the capital resources of the community would be regarded as leased to private companies or individuals for exploitation on a royalty basis—on terms to be negotiated between "landlord and tenant".

There is nothing particularly upsetting in this new relationship, but it does necessitate a revolution in the law of inheritance. As far as the trading community is concerned, it is primarily a revolution in thinking. It does not involve a violent social upheaval or the scrapping of every existing institution. It is not destructive of anything in our economic life—except the indecent and the inefficient. It is actually a revolutionary plan which can be carried through smoothly—without crying any halt to economic life.

The first and fundamental change is to declare that the title to all capital is derived from and belongs to the

community, that no individual title to capital can exist, that whatever capital the State cannot immediately or practicably take over and exploit as State enterprise for the benefit of the community, it will leave in private hands—on lease—to be exploited on payment of a royalty and on terms to be agreed.

Changing the Law of Inheritance

Let us settle this personal question of inheritance before we go further. It is, indeed, time we had a revolution in the law of inheritance. Social ethics have long demanded it. The inequalities in our standards of living, as I have said, were too indecent to survive the purge of war.

I am well aware that the war itself will do a good deal to make the rich poorer and the poor richer. The rise in industrial wages is adding weekly to the numbers of petty rentiers. Before the war nearly 90% of the population was earning less than £5 a week, while the rich with incomes over £2,000 a year—in numbers less than 0·5% of the population—drew 17% of the national income. In 1940–41 there was already a remarkable change. The rich with £2,000 or more a year drew 9½% of the national income.

It is not enough to say that the pre-war inequality of wealth derived from the ownership of property: it was actually maintained by the inheritance of property. So fair and liberal an economic expert as Geoffrey Crowther, the editor of the *Economist*, was moved to make this protest against the law of inheritance:

> "We could safely allow the present inequality of salaries and we could also allow any man to draw income from the property he had himself acquired (a few individuals manage to accumulate enormous fortunes within their own lifetime but these again are the exceptions rather than the rule) and we should still be faced with only a comparatively minor degree of inequality. What causes the continuing schism of society between rich and poor is the fact that rich men can hand on their wealth to their sons."

The Estate Duties may seem high to a millionaire's son paying over 50% of his inheritance to the State, but they have done little or nothing to remove the gross in-

equalities in the distribution of wealth. As Geoffrey Crowther observed:

"We have had them [the estate duties] now in this country for twenty years, but there are more people today with incomes of £8,000 a year than there were with £5,000 a year before the heavy taxation was imposed. And although in twenty years roughly two-thirds of the family fortunes of the country must have been subject to death duties, there is an increase rather than a diminution in the number of millionaires dying each year." [1]

Now, I do not believe that a man will work less hard or feel less ambitious because he cannot leave all his accumulated savings or capital to his children. If a rich man's sons and daughters have not been equipped during his life to stand upon their own economic legs—and who would deny that a good education and upbringing are a greater dowry than money?—it is surely disgusting to hand them wealth after his death which they will be unworthy to hold or incompetent to turn to good account.

Nevertheless, to indulge the human instinct to provide for one's widow and to better one's children—but not grand-children, for I have never met a father who worked extra hard to provide for his grand-children-to-be—I propose that the individual should be allowed to bequeath to his heirs for one generation, meaning to his wife for life and to his children for their lifetime or to his heirs, if there are no children, for their lifetime, the savings which he has accumulated in *his* lifetime up to an amount of £100,000 gross (£75,000 net after payment of Estate Duty). This may seem a lot of money to some, but in the new order of things let us keep our aim high. Besides, it will encourage family life, a conservative, homely outlook and kill any criticism that my proposals are too revolutionary or alien to the British sense of equity and fair play.

The heirs to fortunes up to £100,000 (gross) would not, of course, be able to touch the capital sum. They would receive the dividends therefrom only during their lifetime, and on their death the capital sum would revert back to the State. The capital would be taken care of, I

1 "Economics for Democrats," by Geoffrey Crowther (Nelson).

imagine, during the heir's lifetime by the Trustee Departments of the nationalised banks.

As a corollary of this new law of inheritance it would be made illegal for any individual in a lifetime to accumulate savings (meaning an excess of individual earnings over individual consumption) of any sum in excess of £100,000. Gifts of money, or securities to children during lifetime, would, of course, have to be prohibited, but an exception might be made, shall we say, of £2,500 per child in cash or in kind. Thus, if a man had ten children, he could distribute his savings to them up to £25,000 during his lifetime before he began counting his savings up to £100,000 for testamentary purposes. With this gift exception, any capital accumulated in life over £100,000, excluding sums inherited for life, would have to be handed over to the State. The Inland Revenue would require, of course, a return of capital each year as well as a return of income. And the State would immediately impose a 100% capital levy on all amounts by which fortunes already exceeded £100,000.

Have I been too lenient? The super-rich may regard me as a bolshevik, for the capital levy will reduce their standards of living to decent proportions. A few houses less for them, fewer motor-cars, fewer hunters and fewer servants. But they will still be comfortably off. Anyhow, leniency is the right side on which to err. And I claim it as a merit of my scheme that it allows the deep-rooted instinct of a man to better himself and his family to act as the motive power of the economic machine. This is the real "profit-incentive" which some muddled Socialists would like to see abolished. Is not £100,000 a prize worth working for, particularly if you can hand it on to your children for their lifetime? It should appeal to the pecuniarily ambitious who prefer the prizes of private enterprise. But those who are ambitious to serve the State will find greater opportunities for useful and creative work in the new sphere of State-controlled investment.

Capital and Debt

In the new order we shall be forced by stress of economic circumstance to overthrow the power of money, to free our productive assets from the burden of debt and to make dividend instead of interest the reward of trading enterprise. This, of course, will not disturb the instinct

for family- or self-advancement which I have allowed as the "profit-motive" of the new economy.

Let us be clear in our minds what we mean by capital. Real capital, which is vested by Declaration of Right in the State, consists of the natural resources of the earth and the instruments of production which intelligence and labour can use to extract it and fashion it for our use.[1] Note that money is not capital. Money is merely a medium of exchange, and not an end in itself. A nation, if it accumulates money, is not accumulating real wealth. Indeed, from a communal point of view, savings in the form of money are wasted. It is only when money savings are invested in real assets, such as land, plant and equipment, and the labour and management engaged in production, that the community is adding to its store of wealth. When money is so invested—but not before—it becomes real capital, and then—but not before—it is entitled to a dividend.

Thus, in future, capital would only have claims to a dividend for risks undertaken. Money in itself, when not invested, would have no rights at all—no claim to either interest or dividend. But we would allow that floating "short-term" money in bulk would perform a useful function in providing temporary accommodation to business men, and as such would be entitled to a short-term fee. But we would abolish altogether that fetish of the old capitalist system—the long-term rate of interest.

For some peculiar reason which I have never fathomed, the rate of interest in the old capitalist system was said to affect the rate of investment, which, in turn, affected the state of trade. But the rate of investment was actually decided by the ratio of profit. The rate of borrowing was only one of the factors in the cost of production. In our new order there would be no long-term *borrowing* of money —in the shape of debentures or loans—on which a long-term rate of interest could be fixed. There would only be a long-term *investment* of capital in tangible wealth-producing assets, on which a dividend would be paid if earned.

The old distinction between debentures (which are

[1] Business men talk of fixed capital meaning real estate, buildings, plant, equipment, etc., and floating or working capital meaning movable tools, stock-in-trade, cash and liquid securities. In short, capital for them is what is valued on the assets side of a balance sheet.

money secured by a charge on real assets), preference shares and ordinary or equity shares would disappear. This distinction has existed hitherto merely to enable City financiers and promoters to fool investors about their security, for the income from each class of security has always depended solely on one thing—on the earning power of the fixed assets. So in future we shall abolish these different classes of security and regard each one as a capital stock—as entitled to a dividend, when earned, in the order of priority of the former holdings.

The new capital stocks would therefore be graded A, B and C. The A stocks, ranking first (the former debentures), would be entitled to, say, a fixed 4% cumulative dividend; the B stocks, ranking second (the former preference), to, say, a fixed 5% dividend (cumulative or non-cumulative), and the C stocks, ranking last (the old "equities"), to a dividend varying with the risks undertaken—up to certain maxima prescribed by law. (In some cases there might be no maximum dividend, just to encourage private enterprise in some field where the State desired a quick development.) In the change-over from the old capitalism to the new system of common capital, the old stocks would simply be converted into the new graded capital stocks ranking in the old priorities for the new dividends. But unless the dividends were earned, no dividends would be paid. The holders of the A stocks could not, like the old debenture holders, sue for their dividends and appoint a receiver to sell up the fixed assets. Thus, money as money could exact nothing. How blessed it will be to rid ourselves of the pursuit of usury!

When all real capital is vested in the State, there will be a better understanding of the functions of savings and investment. Until savings are invested they will not earn or be entitled to any dividend—unless used in the mass of short-term money carrying commercial bills, in which case they will earn a short-term fee. When private traders wish to promote and carry on a new enterprise, they will appeal to individuals for the use of their money savings, but these savings will not be loaned as money entitled to interest—they will be invested as long-term capital stocks ranking for dividends according to the scale prescribed by law and payable only out of earnings. Industry and trade would, therefore, carry short-term bills or loans,

but never long-term debt. The fixed burden of funded debt would be abolished.

The Solution of the National Debt Problem

We can now see our approach to the solution of the national debt problem. There are only two straightforward and effective ways of disposing of this monstrous burden. The first is by repudiation or confiscation, which is alien to our traditions and ethical code. The second is by vesting the ownership of all capital in the State, making every holder of Government Stock a lease-holder or life-tenant, and transforming interest to dividend. This is my "Common Wealth" solution. Death is the great leveller, and the change in the law of inheritance I suggest is the means to the end of the national debt problem. It works out on the following lines.

First, the total of the debt will be reduced (*a*) by the capital levy of 100% on amounts by which individual fortunes exceed £100,000, and (*b*) by whatever capital levy is imposed after the war on *all* capital fortunes to meet the release of the deferred pay or compulsory savings. The Conservative and Labour Parties are both committed to the post-war capital levy, and I imagine that it would be of the order of 2½% to 5%. The technique is simple. I foreshadow the formation of a State Mortgage or Trust Company which will lend you the money if you have not the liquid cash to pay. Payments by private citizens of interest on State Mortgage Bonds is the same thing as relieving the State of its capital liability.

Secondly, the State will acquire all holdings of Government stock at around existing market prices and issue in exchange capital stock ranking for a national dividend. In time this national dividend might rise with the wealth-creating productivity of the "common pool", but, to begin with, it will have to be fixed at the "gilt-edged" rate of 2½% which is payable on deposits in the Post Office Savings Bank. The exchange of stock would be adjusted in capital value to compensate holders of Government stocks, if any, then returning a yield of over 2½%. Thus, there would be no element of confiscation in the transfer to the National Stock of the new order.

The reduction of the national debt to a manageable size is now apparent. In the first place, the dead weight is immediately reduced by the two capital levies. In the

second place, the existing personal holdings are extinguished in two generations, for, if the law of inheritance is changed, as I propose, the Government stock which you and I hold and leave to our heirs will revert back to the Treasury on the death of these heirs.

If no new issues of National Stock are made, the State will then be left with the old holdings of foreigners and of the savings institutions, charitable bodies and other corporations which do not die. These, in turn, will be reduced as and when the State acquires the industrial assurance companies, or charitable institutions, like Universities and hospitals (which are today the biggest individual holders of Government Stock), or enters into possession of the holdings of companies belonging to the new nationalised industries. In other words, the national debt as a problem would soon cease to exist.

What happens, you ask, about fresh issues of National Stock?

In the new order of economic things the State will finance itself and its enterprises through direct and indirect taxation and through the credits of its own nationalised banks. It would avoid long-term borrowing. When it takes over an industry it will issue National Stock in exchange to the former owners, with the guaranteed minimum national dividend of 2½%. Its enterprises would, of course, aim at being self-supporting.

It would, I think, be desirable, and helpful to the economic education of the people, if the Treasury were to publish two Budgets each year, an Income Budget and a Capital Budget. In the latter it would keep account of its capital investments. In the former it would take credit (*a*) for the royalties received from companies and individuals exploiting the common capital on lease and (*b*) for the surpluses received from its own nationalised industries. Obviously, as (*a*) and (*b*) went up, the Treasury would be able (other things being equal) to reduce direct taxation or to increase the rate of dividend on its National Stock. Or, it might prefer to avoid distributing the surpluses from its nationalised industries by using them to raise wages or to incur fresh capital expenditures in providing communal amenities, like national parks or a national theatre, which only pay dividends in mental or spiritual enjoyment. My point is that it must show the tax-paying community clearly

how the capital and the income at its disposal are being used. In all accounts balances must be struck, and in the National Accounts it is paramount that the people should know *how the balances are being struck*, so that if one section of the community is benefiting at the expense of another, it should be made apparent.

State Planning of Investment

The next problem to consider is which industries the State should control and manage itself and which trades it should leave in private hands to be exploited "on lease" on payment of a royalty to the Treasury.

The touch-stone will be the State control and planning of investment. Observe that I am not making a fetish of nationalisation. I propose that the State should take possession only of the industries which govern the rate of national investment. Without this control the Government would never be able to secure and maintain full employment for its citizens. I am not suggesting that it would have to devote a certain volume of savings to an equal volume of investment. That economic nightmare can be forgotten for the bad dream that it was. The Government's sole aim would be to create employment and increase the production of real wealth. By creating more employment it would create income, and by creating income it would create savings for more investment. After the practice of a war economy no Government need be ignorant of the simple technique required to balance the national economy.

What the Government would set out to do, then, would be to draw up a national investment plan for the next three or five years, to calculate the amount of capital expenditures needed to give its people a prosperous agriculture and a full industrial employment, comfortable housing, adequate facilities for quick and cheap travel, a decent civic life and entertainment in theatre, films, wireless and television. The Government would, of course, have to calculate what the nation could afford to buy from abroad in food and raw materials and what capital investment would be required to enable it to increase its exports. It would naturally have to decide priorities. The building of a new merchant fleet might conceivably have to take priority over part of the domestic programme, although slum clearance would, I hope, have priority

No. 1. The manufacture of textiles or machine tools for export might have to come before making clothes or household luxuries for ourselves. Armaments might have to come before everything, for defence and strategical considerations would always be paramount. But this is all in the routine of government. My point is that no Government could afford to leave to private enterprise such vital decisions on capital works as would affect the level of employment. For private enterprise to decide whether a vast scheme like Richard Thomas's rolling-mills should be carried out or scrapped, or whether a new steel works should or should not be built at Jarrow, is indefensible. For private capital to determine whether there is to be a building boom in private houses or in factory buildings is an affront to the economic sovereignty of the modern State.

If the Government is to take the responsibility for guaranteeing employment and improving the standard of life, it must decide for itself the rate of capital investment, the manner in which the investment is carried out, and the priorities which are to be assigned to the various schemes of capital expenditure. For that reason, also, the local authorities, the public boards and the public utilities would have to conform to the national investment programme which the Central Government would lay down for its three- or five-year plan.

An economic general staff (consisting of economists, statisticians, business specialists and other experts in industrial and trade affairs) would have to be set up to prepare the estimates of the balance of international payments, of the capital requirements of agriculture and of each domestic industry, and of the resulting national income to be derived from the production of capital goods and consumption goods within that investment programme. This Economic General Staff would then advise and instruct the Cabinet so that it could draw up its three- or five-year plan for capital expenditure. The plan would include the capital expenditures of the local authorities, the public boards, the public utilities, the cost of the housing programme and of town and rural planning; it would also allow for the capital outlays of private enterprise exploiting the State leases; in fact, all the national investment required to bring our standard of life up to a level higher than it was before it was attacked

by Hitler, would be covered by the three- or five-year plan. After all the years we have tolerated a Committee of Imperial Defence preparing (or rather failing to prepare) for the next world war, it will be refreshing to have a Committee of Economic Defence preparing against the next world slump.

State Management of Investment Industries

The investment industries which the State would be forced to take over under this plan, and manage through the war-time system of special Commissioners, would be iron and steel, coal and synthetic oil, armaments, heavy engineering, building and contracting and the public utilities, such as harbours and docks, cables and wireless, rail, road and air transport, water and drainage, gas and electricity, and banking. Agriculture has special treatment when the State becomes the sole capitalist and landlord.

Some of these trades are already under public control, and I do not suppose the list would frighten anyone except the professional guinea-pig directors of public companies who amass multiple directors' fees and become, as the late Lord Horne was once described, "a permanent first charge on British industry". The directors who would lose their jobs would naturally have a grievance, but the interests of the community must prevail. Before the war private enterprise accounted for over half the capital investment of the country. Unless the State after the war controls the planning of investment and the industries which execute the planning, it will never be able to guarantee employment and a decent standard of life to its workers.

I have included building and contracting in this list because the State planning of houses, towns and factories, which must be a bright feature of the national reconstruction, will obviously make demands upon those industries which they would be unable to meet under conditions of competitive private enterprise. The prices of building materials would also have to be controlled. But it goes without saying that, subject to the priority of State planning orders, private builders would be left free to attend to the repairs and decoration of private houses.

The State as Landlord

As regards the land, a big field for investment is opened up when the State becomes the universal landlord. Most

agricultural experts seem to be agreed already on the urgent need for the nationalisation of the land.[1] The technique would be simple. The owner-occupiers and farmer-tenants become alike the life-tenants of the State, paying rent graded according to the quality of the land. (If you were an owner-occupier you would pay a rent in future instead of income tax under Schedule A.) But the State would have the power to run State farms with State managers or bailiffs in any area where it seemed necessary (mostly the backward areas, I would imagine), and to group farms together into the most economic units for efficient operation (often the old parish, I would guess). And what a boon to the community to have the State as landlord with unstinted finance for investment! The private landlord (millionaires, dukes and Lloyd George excepted) was never able to invest enough capital in the land. He allowed his fields to lack proper drainage; he suffered his farm buildings to fall into dilapidation; he failed to provide decent cottages and amenities for the farm workers; he was unable to give his tenants the capital help they required. So British farms carried on haphazardly with insufficient equipment, out-of-date methods of farming and a discreditable standard of living for farm workers. There is only one way to remedy this defect—to make the State the sole landlord and dip into the State Treasury for the funds to drain and fertilise the land, to re-equip and re-stock the farmers and to re-house the agricultural workers. It will be a glorious revolution for our countryside.

This does not mean that we are to go on raising agricultural prices and the cost of living for the industrial workers. Sir Daniel Hall has estimated that agriculture at the beginning of the war was already costing the taxpayer over £100 millions a year in subsidies, remission of taxation and the guarantee of agricultural prices above the world level. On the basis of war-time subsidies the cost after the war will be nearer £200 millions a year. Clearly, there must be a limit somewhere. Whatever the subsidy to agriculture, unless our output of useful goods is increasing by the same amount, it means reducing the standard of living. If the money is taken from the tax-

[1] The Uthwatt Committee is at present considering the future of land use and the Scott Committee is examining the problems of rural life. But as yet there is no Government Committee working out the technical details for nationalisation of the land.

payer, the reduction in the standard of living can be arranged to come from luxuries. If it is taken from the consumer in the shape of higher prices for milk and other agricultural products, it means a lower consumption of food. Obviously it is in the interests of this country to keep food prices cheap. Geoffrey Crowther, the editor of the *Economist*, has argued very convincingly that the case for cheap food rests on the fundamental economics of Great Britain's place in the world. The Englishman's ability and willingness to get his food and materials cheaper than any of his competitors have given him in the past a head start in competition. It is the only advantage which remains. There must be no interference with cheap food and cheap materials. The cost of assistance to agriculture must come out of the ordinary Budget and must fall on the nation's margin of luxury, not on the price of food. As the *Economist* said: "The community has a right to choose in which way it will dispense its bounty, and its ruling must be that food comes before farmers."

State Control of the Financial System

It goes without saying that no planned economy can exist without State control of the financial system. If the nationalisation of the Bank of England and the joint stock banks has not been carried out as a war-time measure, it would have to be undertaken immediately peace was declared and the Government assumed responsibility for the economic safety and employment of the nation. Clearly, the distribution of State credits to the controlled industries could not be entrusted to privately-managed banks. Nor could private banking be allowed to extend credits as it willed to private enterprise in the uncontrolled trades regardless of the capital requirements of the national investment plan. This point is surely too obvious to be laboured. Remember, also, that without State control the banking system cannot be run as a public utility—at cost and not for shareholders' profit. In future, approved banking credits should be extended for a fee—based on the physical cost of the banking service—and not on a monetary rate of interest. By that means we abolish the fetish of the long-term rate of interest and abandon the pursuit of usury. Do not imagine that your savings will be any less secure in the keeping of the nationalised banks. But you will not receive

interest on a deposit account, you will be asked to pay a fee for the safe custody of your money—according to the size of your deposit. This will constitute a tax on hoarding.

The money machine as it existed in the pre-war City would, therefore, have to be scrapped. Privately-owned issuing houses would not be allowed to offend the national economic plan with their disingenuous appeals for the public savings. Irresponsible company promoters would not be permitted to cock a snook at the ordered investment of the people. A reformed Stock Exchange would, of course, have to exist. It would have an important rôle to perform as a free market in the life savings of the individual (the liquidity of the citizen being vital for his freedom), and it would function under a Government charter with brokers licensed to act as qualified financial agents and advisers. Indeed, unless a stockbroker is so qualified there is no reason why he should exist. But in place of the old issuing houses and private banks which would be regarded as redundant to the new order, there would have to be a State Issue and Placing Commission which would put private applicants for capital into direct touch with the life assurance companies and other savings institutions and handle the approved appeals for private savings which these institutions could or would not take. No public issue of capital stock for private enterprise would, of course, be made without the licence of the State Issue and Placing Commission.[1]

The Scope for Private Enterprise

Do you suppose that new enterprises will not be created under my scheme of "common wealth"? Do you imagine

[1] At this point I would like to explain why I have dropped the National Investment Board in which I have always taken almost a fatherly interest. I believe the authors of the old Liberal Yellow Book were the first to propose a National Investment Board, but they confined it to the investment of moneys accruing in the hands of Government Departments, Boards and Commissions. I developed the idea myself in an address to the Liberal Summer School in 1931, and subsequently enlarged upon it for the Parliamentary Labour Party, which embodied my scheme in its policy memorandum on "Currency, Banking and Finance" which was published in November 1934. The only reason why I now consider that a National Investment Board is superfluous is because the control of investment is too important a function to delegate to a Public Board. It is a Cabinet responsibility, and it will have to be taken care of by the Cabinet, with the help of its Economic General Staff.

that private individuals will not co-operate? When the scheme is understood, it should appeal alike to those who wish to pursue an individual line as well as to those who only feel happy when they can devote themselves in a nationalised industry to the service of their fellow citizens.

Suppose that you are a farmer. You will probably find the State a far better landlord than the private one from whose comparative poverty you suffer today. You will pay a rent to the State as a life-tenant, and on your death your son, if he has been working with you on the farm, will apply to the Ministry of Agriculture for a renewal of the State lease and undoubtedly receive it if he is ordinarily competent. If you are a shopkeeper, you will, in effect, be able to hand on your shop to your son, for he will apply for a licence from the Board of Trade for another lease on your death, and he will receive it, subject to whatever Government orders are issued for the concentration of the retail trade in your locality. Suppose that you are an inventive engineer or an enterprising trader who wishes to launch a new company for the development of some new invention or service. You may apply to the State Issue and Placing Commission for a licence to make an appeal for the life savings of the public, which used to be (pre-war) of the order of £500 millions a year. These savings will be subscribed in the form of Capital Stock (not loan) entitled to earn, after payment of the fixed royalty to the Treasury, a dividend according to a scale prescribed by the State, from 4% upwards. The dividend would vary according to the risks undertaken and the rate of depreciation or wastage suffered. Thus, the capital stock of a new industrial company with a heavy depreciation to meet might be allowed to earn 8%, that of a mine with an uncertain life, say, 16%, or of a film company making a new film (the greatest gamble in life), say, 50%, or of a company developing a new invention which might fail completely or bring great blessings to the consuming public, say, 100%. There is no reason why a free market in these capital stocks should not exist on a reformed Stock Exchange. There is no reason why there should not be a moderate amount of speculation if it is kept within bounds and not allowed to upset the common good.

Outside the sphere of State-controlled investment there would, indeed, be a vast field of business activity

for private enterprise. Under my new plan of State ownership of capital, this private field would be exploited on the basis of State leases—that is, on payment by the Company or firm of an annual royalty to the Government varying, say, from 5% to 10% or 12½%. The dividing line between State enterprise and private enterprise would be empiric rather than theoretical. That which calls for national planning and investment would belong to the State, and that which calls for individual initiative and adventure would be left to private enterprise. Even in Communist Russia there is a field for private trade. In individualistic Great Britain there would always be plenty of scope. Indeed, we must keep private enterprise alive and healthy if the output of useful goods is to expand. If it is not to expand, and we are not to get wealthier, there is no point in our revolution.

Picture the enticing avenues open to the individual in private trade. Apart from farming and shopkeeping—the first and last activities of any trading nation—there would be a host of miscellaneous trades, including light engineering, and the manufacture and distribution of most household and consumption goods. Probably half the national economy will remain under private management and control on application to the appropriate Department for a licence to trade and on payment annually of a State royalty. There are, however, certain consumption trades—milk, beer, sugar and margarine—which are highly organised and tending towards monopoly control. In the interests of the consumer this incipient monopolism must be broken. We might, with profit, have a nationalised distribution of milk. As Ernest Bevin remarked in the House of Commons on December 4th, 1941: "As things grow to a monopoly the State always has to decide whether that monopoly must be publicly controlled or left in private hands." Milk is not the only quasi-monopoly marked out for public control.

And then there will be the vast entertainment field open to the individual. No nation can be great without healthy self-expression in theatre and film. The State would, of course, be landlord of the theatre buildings and the film studios, which would end the present payment of excessive rents to private owners and cheapen the whole cost of national entertainment. But the organisation of entertainment obviously lends itself to private initiative

and enterprise. A country which neglects the prosperity of its theatrical and film industry is throwing away its greatest opportunity for national cultural propaganda—in international as well as domestic affairs. But it will not hurt private enterprise to have a national theatre, a national opera and ballet and a national film centre where State funds can provide a nursery for native talent.

Lest I should seem too enamoured of public interest in the field of entertainment, let me express one other article of my faith—that until the B.B.C. has a rival in the private lease of a broadcasting station for the single purpose of providing entertainment, the British nation will continue to be regarded by listeners overseas as dull, boring, sanctimonious, smug, snobbish and half-dead.

There is another by-word in the education and entertainment of the British people—our national newspapers. Something will have to be done about them and their millionaire owners. The display and exercise of great wealth are always indecent, but when a successful newspaper proprietor makes a million or two, receives a peerage and attempts to influence and coerce public opinion through a manipulated mass circulation, it shocks our new sense of the social proprieties. When the privately-owned newspaper adopts a policy on armaments and carries the advertising of the big armament firms, it begins to endanger also the safety of the community. National daily and Sunday newspapers should represent sections of public opinion. They should be controlled by trustees appointed by a panel of representative public men who hold the section of thought which the newspaper is designed to mirror. These trustees should appoint the editor and leave him unfettered in the expression of his views. A law to prohibit newspaper control by private individuals is the simple way to end present abuses and restore a real freedom to the Press.

. . . . .

Do you not think, patient reader, that this is a practicable plan for reconstruction? Do you not agree that it is radical without being too revolutionary, constructive without being too destructive of tradition, inspiring without being too idealistic? You see that I have been fully conscious of the importance of maintaining flexibility in the economic system, of keeping alive the spirit of private enterprise and adventure, of letting the incentive or instinct of self-betterment have full play. But I have put

first things first—the first principle being that the capital resources of the community belong to the State and that they must be exploited for the service of the people in accordance with a State plan. I realise that the first requirement of this principle is to make a clear dividing line between State and private enterprise, so that each knows where, to put it vulgarly, it "gets off". Have I not tried to give effect in my scheme to these human fundamentals of a sound national economy?

I appeal for the last time to all my capitalist, communist and socialist friends not to be stubborn, blind, and hide-bound by their creeds.

Socialists and communists, give up your alien ideologies, and come down to the earth of England!

You communists, understand that Karl Marx is dead and buried, even in Russia, that his theories do not fit an individualistic and original island, and that the British people will not pattern themselves on foreign ways of life, even when imported in the guise of seductive films from Russia or Hollywood. Much as I admire the Russians, I would never accept their money to keep alive my party or the doctrines of their Third International.

You socialists, advance your thinking from Henry George, Keir Hardie, and the Webbs. Or try to catch up on George Bernard Shaw. Do not fool yourselves that you will capture the imagination of British youth by making a political alliance with Trade Union place-seekers or time-servers.

You capitalists, do not imagine that you can stave off the coming revolution by your money-power and your political wire-pulling. The trend of history is against you. If you think you can get away with calculated reaction, please contemplate the present plight of France. Learn a lesson from the French capitalists whose love of Mammon sold them to the devil.

Some sort of scheme akin to mine is, I believe, the only alternative to an unpleasant period of social revolution. If we do not adopt it willingly, we may have it thrust upon us with blood and tears.

APPENDIX I

THE CONTROLLERS

CONTROL.	CONTROLLER.	MAIN PREVIOUS BUSINESS CONNECTION.
Ministry of Supply.		
Steel.	Col. Sir Charles Wright.	Baldwin's.
Non-Ferrous Metals.	A. M. Baer and W. Mure.	British Metal Corporation.
Alcohol.	T. A. Board.	United Molasses; family connections with Distillers Co.
Plastics.	L. P B. Morriam.	British Associated Plastics; British Xylonite Co
Diamond Dies and Tools.	R. L. Prain.	Anglo-Metal Co.; Mufulira; Roan Antelope, Rhodesian Selection Trust
Chemicals.	F. W. Bain (Chairman of Central Board)	Imperial Chemical Industries.
Fertilisers.	H. Cunningham.	Fertiliser Manufacturing Association; Scottish Agricultural Industries (I.C I.).
Sulphuric Acid.	N. Garrod Thomas.	National Sulphuric Acid Manufacturers' Association.
Sulphate of Ammonia.	F. C. O. Speyer.	Imperial Chemical Industries.
Timber.	Major A. I. Harris.	Past President, Timber Trades' Federation.
Wool.	Sir Harry Shackleton	Taylor & Shackleton, Spinners; Chairman, Woollen and Worsted Trades' Association.
Cotton.	Frank Platt.	Lancashire Cotton Corporation.
Flax.	J. S. Ferrier	Wm. F. Malcolm & Co.
Hemp.	A. Landauer.	A. Landauer & Co. (Hemp and Fibre Merchants)
Jute.	H. S. Sharp.	J. Sharp & Sons, Dundee; Association of Jute Spinners and Manufacturers.
Silk and Rayon.	H. O Hambleton.	Hambleton & Co., Silk Weavers.
Paper.	A. R Reed	Albert E. Reed & Co. (linked with Associated Newspapers); London Paper Mill Co.
Industrial Diamonds.	Sir Cecil Rodwell.	Consolidated Gold Fields of South Africa; Roan Antelope, etc.
Leather.	Dr. E. C. Snow.	Chairman, United Tanners' Federation.
Rubber.	F. D Ascoli.	Dunlop Plantations, Ltd.
Ministry of Aircraft Production.		
Light Metals.	G. W. Lacey.	British Aluminium Co.
Board of Trade.		
Tobacco.	A. H. Maxwell.	Macmillan, Maxwell & Co. (Tobacco Leaf Merchants).
Petroleum.	Sir Andrew Agnew (Chairman of Petroleum Board).	Shell Transport & Trading.
Ministry of Works and Buildings. (Directors).		
Building Materials.	Sir Harold Howitt (Chairman of Board).	Peat, Marwick, Mitchell & Co. (Chartered Accountants).

Control.	Controller.	Main Previous Business Connection.
Cement	J. Norman Daynes.	King's Counsel; Chairman of Appeals Tribunal under Coal Act, 1938.
Bricks.	L. W. Hutson.	Cullen, Lockhead & Brown (Architects)
Roofing Materials	R G Cromwell	Hall & Co, Ltd. (Builders and Coal Merchants).
Ministry of Food. (Directors).		
Manufactured Foods.	F. W. Aldridge	Co-operative Wholesale Society.
Chocolate and Sugar Confectionery.	W. Wallace.	Rowntree & Co, Ltd.
Bacon and Ham.	J. Loudon.	John Loudon & Co., Ltd. (Produce Importers)
Tea and Coffee.	Sir Hubert Carr	Retired Tea Grower.
Cocoa	J. Cadbury	Cadbury Brothers, Ltd.
Rice.	H. L Sanderson	Chas. Wimble, Sons & Co. (Produce Brokers).
Dried Fruits and Edible Nuts.	A. E. Gough.	Overseas Farmers' Co-operative Federation, Ltd. (marketing organisation for Empire Co-operative Producers).
Imported Cereals.	J. V. Rank	Joseph Rank, Ltd., & Ranks, Ltd.
Home-Grown Cereals.	C. D. B. Ellis.	Ellis & Everard, Ltd., and Joseph Ellis & Sons, Ltd.
Cereal Products.	C. A Loombe.	Reckitt & Colman, Ltd.
Bread	J N. Frears.	Frears & Blacks, Ltd.
Emergency Bread Supplies	W. S Duthie.	Allied Bakeries, Ltd.
Oatmeal and Pearl Barley Milling	I. Maclean	Thomas Borthwick (Glasgow), Ltd.
Cakes and Biscuits.	Howard Hughes	Alfred Hughes & Sons, Ltd.
Edible Pulses.	L. T. Houlding.	Sanday & Co, Inc.
Meat and Livestock.	H S. E. Turner.	New Zealand Refrigerating Co.
Canned Fish	F. Wilkinson.	Co-operative Wholesale Society.
Fish.	J. Adamson.	McClelland, Ker & Co. (Chartered Accountants).
Animal Feeding Stuffs.	Sir Bryce Burt.	Indian Agricultural Service.
Starch.	J. Roberts.	Reckitt & Colman, Ltd.
Cold Stores.	E. F. Farrow.	Hay's Wharf, Ltd.
Eggs.	J. A. Peacock.	Nurdin & Peacock, Ltd. (Wholesale Produce Importers).
Fresh Fruit and Vegetables.	C. H. Lewis.	National Federation of Fruit & Potato Trades, Ltd.
Potatoes.	Capt. J. Mollett.	Potato Marketing Board.
Fruit Juices and Pectin.	G. T. Shipston.	California Fruit Growers' Exchange, Ltd.
Canned Fruit and Vegetables.	B E. Payne.	J. Travers & Sons, Ltd.
Wholesale Co-ordination and Unrationed Foods.	C. E. Davies.	H. H. & S. Budgett & Co., Ltd.
Milk Products.	H. E. Davis.	Dominion of New Zealand Dairy Sales Division (London Manager).
Milk.	S. Foster.	Milk Marketing Board.
Oils and Fats.	H. Davis.	Lever Bros. & Unilever, Ltd.
Transport.	A. G. Marsden.	Cadbury Brothers, Ltd.
Warehousing.	S. Whibley.	Clarke, Nickolls & Coombs, Ltd.

This list of names is taken, by permission of the Editor, from the *Economist* of March 28th, 1942.

I should add that the first Aluminium Controller, then under the Ministry of Supply, was the Hon. G. Cunliffe, a director of British Aluminium. The first Cement Controller was Lord Wolmer, chairman of the Cement Makers' Federation.

The list does not include the Industrial and Export Council of the Board of Trade, whose members are mentioned on pages 64–5, or the Director-General of Clothing at the Board of Trade, who was first Metford Watkins of John Lewis, and is now Sir Thomas Barlow, a cotton spinner. Strictly, the *Economist* should not have included the Chairman of the Petroleum Board, who is not an official of the Board of Trade, but an independent board chairman. But it might have included the Railway Executive and the Coal Supplies Officers.

APPENDIX II

THE GOLD STANDARD AND THE NEW CURRENCY

"The speaker on this occasion will be Mr. S. W. Alexander, City Editor of the *Evening Standard*. Subject: 'Back to God and Sound Money.'"—Announcement of Lecture by Incorporated Sales Managers' Association.

ISN'T IT wonderful? A new generation is growing up which has never known what it is like to be on the gold standard. And the war, if it ends in our lifetime, gives us the great opportunity to work out for these young people a new currency system based on equity and common sense.

The gold standard was a simple understandable system, but a wicked one. The only good thing about it was that it broke down with every world crisis. Great Britain, for example, had to suspend the gold standard during the Napoleonic Wars, during the Great War and again during the great slump in 1931. Fortunately, we have never returned to it since then, so that we did not have to suspend it again during the new world war.

Seen in retrospect, the gold standard would be regarded as a fantastic practical joke if it were not so dangerous to human life and happiness. It is incredible, but it is true, that otherwise sane people invested a yellow metal, noted for its durable properties, with an entirely fictitious value of 85*s*. an ounce by creating a mere "paper" demand for it. They dug it out of the ground, let us say, in South Africa, carried it in fast liners across the ocean, and re-buried it immediately underground at Fort Knox, Kentucky, U.S.A. Today it is worth 168*s*. per ounce—thanks to this currency-hoarding demand. If its

value depended solely upon commercial demand, it might be worth, for ornamental and household purposes, rather more than silver, which is 2*s*. per ounce. It is not much used for stopping teeth today.

The Old Rules of the Gold Game

The gold standard was a device for keeping the currencies of different nations in a fixed relationship of value. If a unit of each currency could be exchanged at any time for a fixed quantity of gold, clearly their relative values would remain stable. This was obviously a great help to international traders. Exporters or importers could make a bargain ahead in a foreign currency with a certain knowledge of what it would cost in terms of their own currency.

The gold standard was also a device for maintaining internal or national confidence in "sound money". The fiction was that £1 worth of gold lay behind a £1 note. But the Bank of England was allowed by Parliament to issue a fixed amount of extra paper notes (the "fiduciary" issue) without gold backing. Just as the Bank used to keep to a fixed ratio of gold to notes, so the joint stock banks used to work to certain ratios of "cash" to liabilities, their "cash" including deposits at the Bank of England.

These gold rules meant that bank credit had at times to be restricted, if and when the new supply of gold from the mines was short in relation to the new supply of goods. At other times, when great discoveries of gold were made and exploited, the banking system would be surfeited with money. That could not be helped, because the Central Banks were bound to buy gold at a fixed price whenever it was offered to them. But since 1914 restrictions have been laid upon the surrender of gold by Central Banks in exchange for notes.

The great trouble was that while the exchange values of national currencies could be kept stable by the gold standard, their internal purchasing powers could not. The same unit of gold would sometimes buy, for example, more goods in America than in Great Britain, which would cause people to sell pounds and buy dollars to obtain the trading advantage. The Central Bank used to keep a floating supply of gold to meet such exchange demands, but to bring the internal purchasing powers of the currencies back into their old relationship the inventors of the gold standard followed certain conventional rules.

One of the rules was that when a country's prices were relatively high, money must be made dearer in that country in order to bring prices down again. This meant contracting trade. Imagine it! If prices were relatively high in Great

Britain and if, in consequence, part of the Bank's stock of gold bars had been exported overseas, or the maximum of the paper notes allowed to be issuedwithout gold bars as a backing had been reached or exceeded, we were obliged by the rules of the gold standard game to put up Bank rate and contract the supply of bank credit—in other words, we had to tell our traders that they must give up using so many paper notes, that they must reduce employment and force labour, through the fear of poverty and hunger, to accept lower wages, so that exports may be increased. That is still the policy of Sir Ernest Benn and the "sound money" school.

Thus, the gold standard purported to effect an economic cure for relatively high prices by inflicting human misery. And the disgusting part about the game was that the power of inflicting misery upon the wage-earners by the use of deflationary monetary forces was generally placed in the hands of bankers representative of the rentier classes who gained most by the deflation. The British people, being a humane race, so far recognised the inhumanity of the gold standard that they were the first to give an adequate "dole" to their unemployed.

Success and Failure of the Gold Standard

For a time, the old gold standard worked moderately well, partly because of a steady output of gold from the South African mines, which enabled the supply of paper money to expand with the growth of trade without upsetting the gold ratios, partly because the game was managed by Great Britain, who modified the rules to help herself and international traders generally. It became, in fact, a sort of sterling standard. Thus whenever Great Britain had a surplus on her international account, she did not require her debtors to discharge their debt immediately in gold. She extended credits and allowed the debtors to work off their debt gradually in goods. She even maintained for a time a free trade system to facilitate the payment of debts in goods. But all this is past history. It is unlikely that Great Britain will have the opportunity to run an international sterling standard again.

It is pretty certain also that no nation—Great Britain included—will ever go back to a currency system which does not allow its Government in economic affairs to be master of its own destiny. No nation will ever again tolerate the misery of unemployment and poverty which the gold standard imposes on the workers whenever credit is to be restricted.

The collapse of the gold £ in the autumn of 1931 was an unforgettable lesson. The currency speculations of foreigners, not to mention the follies of City bankers who had indulged in unwise international deposit banking and acceptances, served

to unseat the Labour Government in ignominious fashion and to bring the good name and faith of Great Britain into disrepute. The question has never been cleared up whether it was the American Government or merely the Bank of England which demanded a cut in the British dole as its price for supporting the gold pound in the crisis of 1931. Personally I incline to the theory of the domestic "banker's ramp". It is not like Washington to interfere in the internal affairs of another Great Power. But the gold crisis at that time upset a Labour Government, which might have done well in foreign affairs, and brought into being that bastard form of "national" Government, the coalition between Ramsay MacDonald and Stanley Baldwin, which began appeasement abroad, fostered monopolism at home and undermined the national morale. But never again will bankers be allowed to work such evil in the political life of a nation.

A New Currency—at Home

To work out a new currency system, we must have a clear view of our objective. It will fall naturally into two parts—domestic and foreign.

In the domestic sphere it is pretty obvious that we shall retain an inconvertible paper currency consisting of bank notes, cheques, and trading bills. The bank notes will represent, as they do today, the national till money, and there is no need for them to have any specific gold cover. The volume in circulation will vary from month to month with the trading customs and seasons of the year, and unless there is a panic or urge to hoard, which does not usually happen when the British public is properly instructed, there is not likely to be any difficulty in controlling the volume of the notes in circulation. The trade of the country would continue to be financed by bank credits.

Should we try to give this inconvertible paper currency a constant purchasing power at home? We may wish to avoid the unpleasant redistributions of wealth which are brought about when the pound becomes very much cheaper or very much dearer in terms of commodities. When we say that the pound should have a constant purchasing power, we mean that it should buy approximately the same quantities of commodities year after year. A new group of commodities to represent the cost of living would have to be compiled for the new conditions of life after the war, but we must all agree that the standard of a composite commodity price index is the most accurate standard of value that could be devised. As compared with that of a single commodity such as gold, it is as light compared with darkness.

The calculation of the composite index-number which serves to define the price level is open to universal inquiry and verification. The only matter for discussion is as to what commodities should be included in the index-number and how they should be weighted. Further, there is the choice between wholesale and retail prices. I do not venture here to express an opinion on such technical points, but I would suggest that a small committee of our leading statisticians and economists be formed to decide on the best composite commodity price index for the job. This decided, the managers of the new paper pound would watch this "cost-of-living" index month after month, and if a decided trend up or down were to be established, the Economic General Staff would consider what was wrong in the balance of national investment and consumption, and then take steps to correct it.

I do not mean that it should be our intention to secure a perpetual stability of prices. I believe this to be not only impossible—for I do not hold to the quantitative theory of money—but undesirable. We do not live on Treasury notes or clothe ourselves in bank credits. Money is only a medium of exchange—a means to an end, the end being real tangible things like houses, food, clothes, transport and entertainment. These real tangible things can only be manufactured by real productive resources, such as our natural wealth and the instruments of production in the hands of skilled labour. As a country accumulates more and better instruments of production, it will increase its productive efficiency and reduce its average costs of production. Without any change in the supply of money this means that prices will tend to fall. As we should have got rid of the old profit motive for at least half the total volume of trade, and as we should have substituted fixed rates of dividend (varying with the risks involved) on equity investment in place of the old system of unlimited profits, I see no reason why the economic system should not work smoothly and efficiently with a slight tendency on the part of prices to fall. In some cases this tendency can be offset by an increase in the wages of the workers engaged, but in other cases it may be desirable to cheapen the cost of living or recreation for the average citizen. But it is fantastic to suppose that the economic system in a Socialist society can only exist by stabilising prices and keeping the purchasing power of the pound absolutely rigid. The new currency would have to be watched, but not tied rigidly to anything save common sense and real values.

A New Foreign Exchange

Now we must consider the external problem of the new currency. How is the paper pound to be valued in the foreign

exchanges? How are extreme fluctuations in value to be avoided? How are international balances to be settled? Is the gold exchange standard to be abandoned altogether?

It is here that timid monetary reformers have misgivings. They are afraid to leave the cardinal doctrine of the gold standard—that a gold reserve must be held by the Bank of England for the purpose of settling international balances and maintaining stability of the foreign exchanges. The right to demand gold in exchange for local purchasing power or local purchasing power in exchange for gold at certain prescribed rates is so widely believed to be the only workable basis for international trade, that we have become mesmerised by the machine we have created. Destroy this international basis of exchange, it is argued, and you destroy international trade. And should not Great Britain be the last country to attack the international gold standard, seeing that the British Empire is the world's greatest producer of gold, and that London is an international money centre whose earnings from financial commissions and agencies amounted to about one-sixth of our overseas invisible income? I might add another question. Should Great Britain abandon the gold standard when its ally America has been accepting British gold for many years in payment for American goods and has now accumulated the fantastic pile of $22,500 millions (£5,625 millions)?

Now, these arguments of the high priests and elders of the City are well known and need careful answering. Let us take the political argument first. We must not offend South Africa, the greatest of all gold producers. Well, South Africa seems bent upon pursuing an independent, nationalistic line of her own. Does she intend to stay within the British Commonwealth of Nations after the war? She must not object if Great Britain, in order to regain her old position in international trade, pursues a currency policy which she believes to be most advantageous to herself and to her customers.

I agree that we must not offend America. Indeed, we cannot envisage the introduction of any new system of exchange unless we thrash out the pros and cons with our allies, America and Russia, as well as with our partners in the British Commonwealth. But the American experts will be the first to admit that a gold exchange standard cannot be worked while the United States are sitting on 80% of the world's stock of gold. Will America agree to distribute its stock of gold on some new "Lease-Lend" basis to re-start a world gold exchange system?

There must have been something wrong with the management of the old system when such vast quantities of gold flowed to the United States and stayed there. In theory the old gold standard assumed that the efflux and influx of gold, in the

settlement of international balances, produced equilibrium by altering the level of prices in the lending and receiving countries respectively, thus enabling a debtor country, whose prices were deflated by the efflux, to export more, and a creditor country, whose prices were inflated by the influx, to export less. But it is obvious from a study of the 1918–39 history of the international gold standard that the system was not allowed to work according to this beautiful theory. The creditor countries had not given the debtor countries a fair deal. America, in particular, by erecting high tariff barriers, refused to take the world's goods in payment for American exports. The Macmillan Committee exposed the root of the trouble in the following comment:

> "The position of debtor countries is apt to deteriorate rather than improve as a result of their having to export gold. . . . Their credit as borrowers suffers. Thus, having lost their gold and not being able to borrow, they are forced off the gold standard. . . . And creditor countries, fearing to provoke an inflation by letting the new gold produce a rise in prices, try in effect to make themselves insensitive to further imports."

The international gold exchange system in truth broke down because its management was against international equity. *Is it equitable to make the debtor country finance the creditor country's export surplus, and then to prevent the debtor country from repaying its debt in services and goods?*

Equity dictates that the creditor country should finance its own surplus of exports by internal loans, instead of the debtor country financing its surplus of imports by external loans. And if we are all agreed that international debts can only be repaid in services and goods—a principle which was the root of our whole reparations and war-debts policy—why do we not put it into practice in our international exchange system?

Clearing-House or International Bank?

We have two alternatives—short of the planned world trade of an Economic League. First, we can abandon the gold exchange standard altogether and set up Clearing Houses for mutual trade, on the principle that goods and services can only be paid for by goods and services over a period of time. For reckoning purposes in the Clearing-House accounts our Exchange authorities (I assume the State has a monopoly of exchange dealings) will fix currency exchange rates with all foreign and Dominion Governments. These rates will be altered periodically according to the relative price levels of the respective countries. This is an enlightened "barter" system

which, incidentally, I put forward in articles in the *New Statesman and Nation* ten years ago.[1] It is a practicable system which would work, and it has many advantages over the gold exchange system. It avoids the necessity of debtor countries having to finance the surplus of exports of creditor countries. But it savours now of the "blocked accounts" perfected by Dr. Schacht and the Nazis, and its main drawback is that it may be too drastic to meet with full approval in the United States. And South Africa would hate it.

The second alternative is to have a modified and limited gold-exchange standard. My own plan is to reconstitute the International Bank, with branches in the leading capitals of the world. In each country importers and exporters would be paying into or drawing from their branch of the International Bank in their own currency.

To explain the system let me take the case of trade between Great Britain and the Argentine. An English exporter to Buenos Ayres would receive a sterling credit in the London branch of the International Bank, and the same amount would be debited against Argentina in the same branch. The Argentinian customer would pay in pesos into the Buenos Ayres branch of the International Bank, and these pesos would go to the credit of Great Britain in the same branch. Imagine similar transactions happening at International Bank branches all over the world. These branches would then "clear" through the Central International Bank (situated in Geneva or wherever you like) at agreed rates of exchange, which would be revised periodically on the relative price levels. Each country would thus have a debit or surplus on its international account in the Central International Bank, and these differences could be settled either by the exchange of gold or left to be settled by the exchange of goods in course of time. If a debit were not extinguished by a credit of goods in, say, seven years, it would then be written off as a bad debt. As we are used to bad debts in individual trading, so we must expect them in international trading. International credits could be arranged to facilitate trade, if need be, through the books of the International Bank branches, *but the credits would be extended by the exporting countries to their own exporters in their own currency in the books of their own branch of the International Bank.* Thus, international loans in foreign exchanges would be avoided and debtor countries would not have to finance their creditor's exports.

This modified gold-exchange system is a vast improvement on the old. Indeed, it might be acceptable to America as a means of "lease-lending" its gold. It would require, of course,

[1] May 28th and June 4th, 1932.

far less gold to be produced than South Africa turns out today. But that is all to the good. It is an insult to the native intelligence of man that vast hordes of black labour and millions of pounds worth of expensive machinery and plant should be employed in digging up the so-called "precious" metal from the bowels of the earth, refining it, shipping it and then re-burying it. When this absurdity is reduced to less absurd proportions we shall all feel better. And will not the Americans feel better when their vast pile of gold ($22,500 millions worth) is also reduced to a less ridiculous size? I suggest to Morgenthau that he should consider distributing this stock of gold to the branches of the new International Bank, as working capital, to enable this more equitable system of international trade to be established.

You may regard this as a courageous experiment, but I fancy that the Americans, who have been so boldly led by President Roosevelt in economic and monetary affairs, will be as readily disposed as we are to experiment with any new international exchange system which is designed to promote a freer exchange of goods. The time will be ripe for it after the war. The exchanges will be in a state of flux, and the world will not be operating on any universal monetary basis. There will be no world price for any commodity. To launch a new exchange system at that time will involve the least possible disturbance to the world's economic system. If America and Great Britain and Russia can agree upon it, there will be no difficulty in making it work for the good of the whole world. If an Economic League can be organised to plan world trade, with an international pool of surplus raw materials and a world distribution of surplus manufactures, my new system of International Bank or banking would be ideal.

When we have established an enlightened currency system at home and abroad, what a sense of relief we shall feel! Our national prosperity and reputation will no longer be at the mercy of gold or international financiers. We shall no longer have to borrow £130,000,000 of gold to keep the pound from falling in the autumn and another £150,000,000 of gold to keep the pound from rising in the spring. We shall no longer have to ruin our debtors in an effort to collect their debts in gold. We shall, in fact, unite international finance with common sense and international trade with equity.